



Annual Report & Accounts 2020

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COMPANIES HOUSE

HomeServe's purpose is to make home repairs and improvements easy. Easy for homeowners and easy for trades.

In our Membership business, customers buy a policy from HomeServe. Our growing Heating, Ventilation and Air Conditioning (HVAC) installations and Home Experts businesses connect homeowners with trustworthy local trades (tradespeople) who can help them fix, maintain and improve their homes.



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

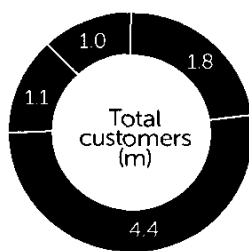
We employ c.7,000 people worldwide, to serve our customers principally in the UK, North America, France, Spain and Japan. The HomeServe Way is to operate with courage, persistence and integrity in the service of our customers.

① Read more about our business model on page 12.

① Read more about The HomeServe Way on page 20.

North America is our largest market place. Our policy retention rate is 82%.

8.3m
customers
globally

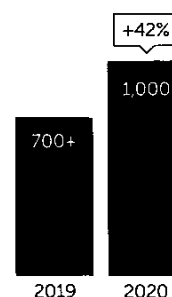


● UK ● France
● North America ● Spain



We signed our first affinity partnership in Japan in January 2020.

c.1,000
Affinity partners
globally



In November 2019 we acquired 79% of eLocal to enter the Home Experts market in North America.



In April 2019 we launched a best-in-class whole home warranty plan in North America with spokesman Mike Rowe.

Performance highlights

Another year of strong growth, investment and customer service

£1,132.3m

Revenue +13% from £1,003.6m

£158.6m

Statutory operating profit +4% from £152.6m

31.7p

Basic earnings per share -3% from 32.7p reflecting exceptional items

23.6p

Ordinary dividend per share +10% from 21.4p

Awards

HorneServe uses a number of alternative performance measures (APMs) to assess the performance of the Group and its individual segments. These are used in headline financial results and throughout the Strategic report. APMs are non-GAAP measures which address profitability, leverage and liquidity and together with operational KPIs give an indication of the current health and future prospects of the Group. Definitions of APMs and the rationale for their usage are included in the Glossary at the end of this report with reconciliations, where applicable, back to the equivalent statutory measure.

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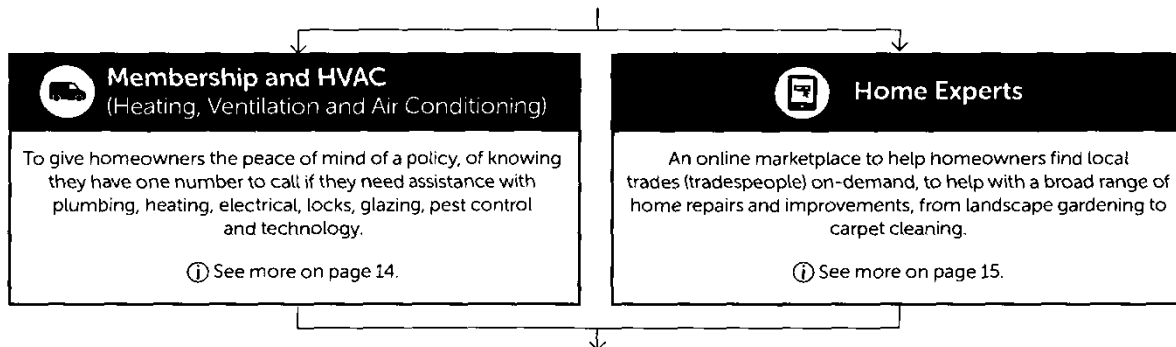


At a glance



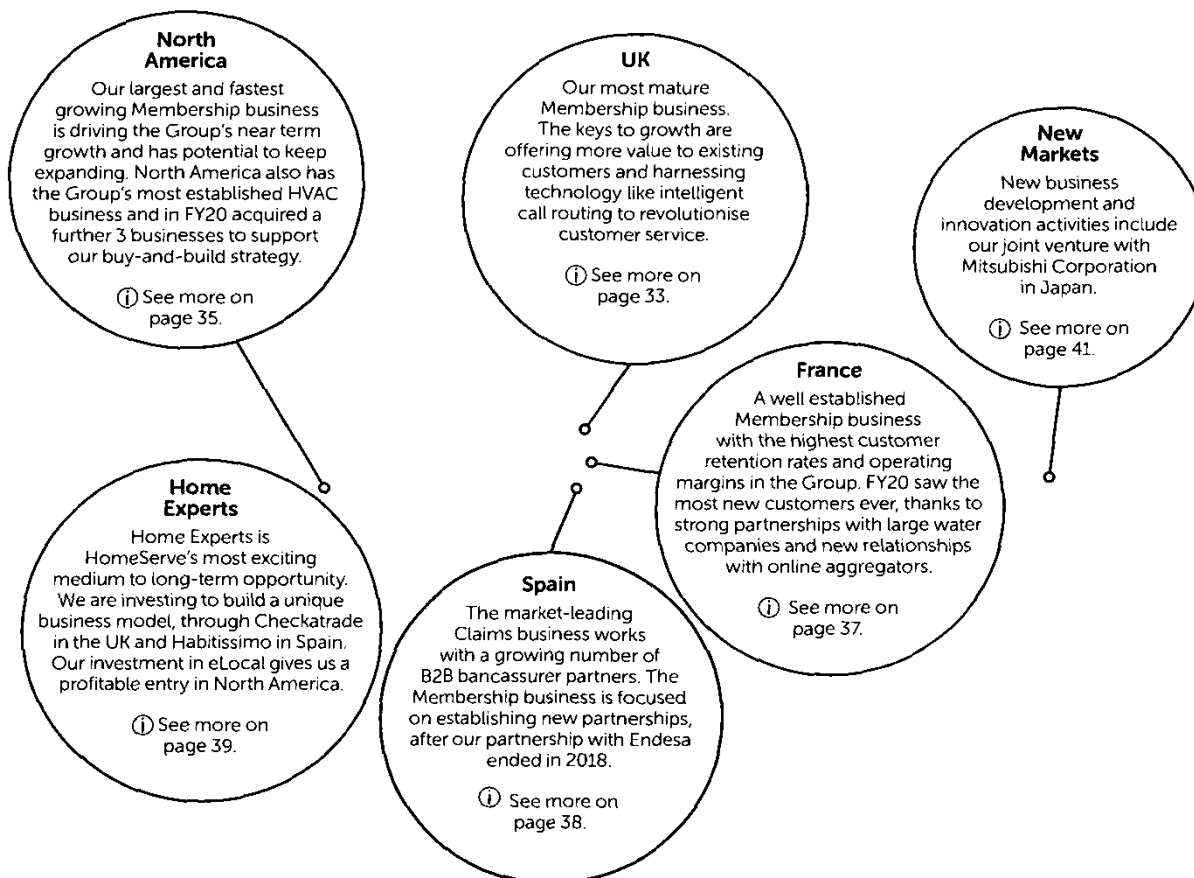
Our purpose is to make home repairs and improvements easy, and our ambition is to be able to do every job, in every home.

We reach homeowners through two global business lines.



By offering Membership, HVAC and Home Experts, we can help out all around the home. We are creating a large network of skilled trades, and are committed to helping our trades make a good living, whether they are self-employed or part of our workforce. This is what we mean by making home repairs and improvements easy, for homeowners and trades.

We run our business by geography and by business line



Since FY19, Home Experts has been reported as a separate segment, reflecting the size of the opportunity and the way we allocate resources and review performance.

FY20 achievements

We are investing in our exciting growth plans for HVAC and Home Experts and expect them to support Membership in delivering growth in the medium to long-term.

Membership

Our biggest growth opportunity is in North America. Our key growth driver is to sign more affinity partners and grow our customer base.

We signed c.250 new affinity partnerships in FY20 to take the total to c.1,000.



4.4m
customers in
North America

**Every Job.
In Every Home.**

HVAC

Every home has a heating and/or an air conditioning unit. Our buy-and-build strategy is creating an HVAC installations capability in all of our established Membership markets.



15
acquisitions completed

£19m
net profit and loss
investment across
Home Experts and
New Markets in FY20.

Home Experts

Our Home Experts business complements our Membership business by giving access to more trades on an on-demand basis.



Our primary reporting segmentation is by geography

£million	Revenue			Adjusted operating profit		
	FY20	FY19	% change	FY20	FY19	% change
UK	372.9	391.7	(5%)	81.0	66.0	23%
North America	429.5	333.4	29%	85.4	67.6	26%
France	111.8	104.6	7%	33.8	33.3	1%
Spain	154.1	140.8	9%	20.1	17.7	13%
New Markets	—	—	—	(4.7)	(2.4)	89%
Home Experts	71.8	40.4	78%	(13.9)	(7.4)	86%
Inter-segment	(7.8)	(7.3)	7%	—	—	—
Group	1,132.3	1,003.6	13%	201.7	174.8	15%

Chairman's statement

JM Barry Gibson

With the new requirement this year to report on the Board's actions to promote the success of the company for all of our stakeholders, we were given a timely reminder of the breadth and seriousness of our corporate responsibility.

Throughout my long career, it has never been more important for companies to play their part in wider society. I would like to start my report by thanking the whole team at HomeServe, Checkatrade, Habitissimo, eLocal and our associated companies for everything they have done to safeguard key stakeholders during the coronavirus crisis, including our people, customers, trades (tradespeople) and partner networks. The Board's most significant decision at the onset of the pandemic was to support our executive colleagues' recommendation not to furlough or make any redundancies as a result of the current lockdown. This was great for staff morale, and will help us come out of lockdown ready to serve our customers better than ever.

FY20 was another record year for HomeServe, where continued strong performance in our Membership business gave us scope to invest in Home Experts, HVAC (Heating, Ventilation and Air Conditioning) and New Markets. The Board advocated a disciplined approach to investing for growth, guided by our overarching purpose of making home repairs and improvements easy.

Here are some of the areas of strategy where the Board's involvement was most significant:

- Every fifteen years or so, each home needs a new boiler or air-conditioning unit. This makes HVAC installations an attractive addition to our Membership business, because it means we can replace HVAC units for our customers as well as service them. The Board scrutinised our buy-and-build HVAC strategy to satisfy ourselves that it will deliver long-term value.
- There is clear potential to take HomeServe's successful business model into new countries. We challenged our international development team to create profitable entry strategies for new territories as well as forging strong new partnerships, like our relationship with Mitsubishi Corporation in Japan.

- We took a careful look at our expansion plans for Home Experts, for example to make sure we understood the value of owning 100% of Habitissimo. Even more significantly, with the acquisition of eLocal, we needed to be confident that it would give us the right platform to build an online, on-demand Home Experts business in North America.
- We also analysed strategic course corrections such as our withdrawal from Italy to ensure that they were consistent with our strategy.

The diversity of expertise and experience we have in our Non-Executive team makes these discussions constructive and valuable for all involved.

Throughout my time at HomeServe, I have championed the development of talent and diversity, and it is great to see such good progress on the People Committee agenda:

- Our global senior leadership team is now one third female, but we have more work to do specifically with the Executive Committee and Board. This work is now accelerating, and we have set a target of one third female representation across our Board, Executive Committee and their direct reports by March 2021, moving us towards the targets set out in the Hampton Alexander report.
- We keep a close eye on overall employee engagement, and I would like to congratulate our Membership businesses in France, North America and the UK for achieving Great Place to Work status in the past year.

HomeServe is a business staffed by dedicated, creative, customer-focused people who constantly demonstrate The HomeServe Way's key behaviours of courage, persistence and integrity. Never has the strength of our corporate culture been clearer than during the coronavirus crisis. Richard Harpin talks in detail about our response in his Chief Executive's review, but I just wanted to formally record how impressed I have been with the speed and clarity of thinking which governed our response, the resilience of the whole business and the compassion our employees have shown to our customers.

Given our strong performance in FY20 and expectation of resilience in the year ahead, the Board proposes a final dividend of 17.8p, to take the total dividend for the year to 23.6p, up 10%.

JM Barry Gibson
Chairman
19 May 2020

Putting our customers first

José Luis Olmedo Locksmith

“ I went to the home of an ICU doctor at a hospital in Jaén who was locked out and had left her keys inside. When she finally got access, after a hard day's work fighting against COVID-19, she was so filled with excitement that she almost hugged me. She walked me out just as the applause for the health workers started and said “this applause is for you too”. I ended the day happy to have been able to help one of the superheroes without a cape who works tirelessly to defeat this virus. ”

Chief Executive's review

Richard Harpin

I am writing my review of the year to March 2020 at a moment when the coronavirus pandemic is dominating our personal lives, our business decisions and the international agenda. To create a balanced review, I have started by describing the financial year as a whole, then addressed our response to coronavirus and current business performance, and finished with some thoughts on the future.

The current crisis has reinforced my belief in the importance of a clear sense of corporate purpose. HomeServe's purpose – to make home repairs and improvements easy for homeowners and trades (tradespeople) – drives everything we do. To achieve our ambition of being able to do every job in every home, we need to see growth across both of our business lines – Membership & HVAC (Heating, Ventilation and Air Conditioning) and Home Experts – and in our international development activities. We made good progress on all fronts this year.

FY20

FY20 was another successful year for HomeServe, in which we continued to serve our customers with passion and commitment, delivered double digit revenue and profit growth, and invested for the future.

Continued strong growth in Membership & HVAC

Our Membership and HVAC business line delivered revenue growth of 10%, together with 18% growth in adjusted operating profits. North America remains the outstanding growth driver, and we also saw efficiency gains in the UK, record new customers in France and a good performance in Spain, particularly in the Claims business.

Membership remains attractive, predictable and highly cash generative and has significant further potential. In North America, we now work with over 950 utilities (FY19: c.700) and have access to 64m households (FY19: 60m). New partner signings continue, and after the year end we were particularly pleased to sign Alabama Power with 1.3m households and a large partner in Canada, the Municipality of Ottawa, with 0.4m households. The customer count grew to 4.4m (up 9%), and North America delivered revenue growth of 25% to \$546.1m and topped \$100m of adjusted operating profit for the first time, reaching \$108.6m (FY19: \$88.1m). The acquisition of ServLine opened an interesting new channel with rural water associations as well as new product potential, and we entered the Whole Home Warranty market with an initial product launch and two small acquisitions to give us expertise in the real estate channel.

Our Continental European Membership businesses also performed well. France added its most new customers ever, driven by strong relationships with the top three water utilities and new partners such as JeChange and Papernest. In Spain, strong performance in the Claims business drove revenue up 11%, and we continue to seek new partners in Membership to replace Endesa, which ended in May 2018.

UK Membership also had a good year, delivering efficiency gains which drove strong profit growth, and is at the forefront of innovations to revolutionise the way we serve customers in the future. HomeServe Now connects customers directly to an available, local engineer, and has the potential to attract new customers to HomeServe and further reduce our cost to serve.

In HVAC, we made 15 acquisitions across North America, France and Spain for a cash outflow in the year of c.£25m. Our buy-and-build strategy drove total HVAC revenue up 83% to £80.9m and HVAC installations are becoming a significant contributor to our customer value proposition in all four of our Membership businesses. With HVAC acquisitions adding c.0.1m policies through cross-sell and existing policy books it is also a solid contributor to customer growth.

First utility partnership in Japan

Beyond our established businesses in the UK, North America, France and Spain, we achieved a significant milestone in Japan in January 2020, when we signed our first utility partner, Chugoku Electric. Our first marketing campaign yielded encouraging results, with take-up rates approaching those achieved in North America. Strong relationships between Japanese utilities and our joint venture partner, Mitsubishi Corporation, have driven rapid progress, and we look forward to seeing this partnership develop further in FY21 and beyond.

Productive investment in Home Experts

We estimate that our core Membership business in its current form appeals to about a third of homeowners – an older, insurance-minded demographic who want to avoid the financial shock and disruption of an unexpected home emergency. Home Experts gives us the opportunity to broaden our target audience and to make home repairs and improvements easy for homeowners whose instinct is to search for reputable trades online when something needs repairing or improving in their homes.

Total revenue in Home Experts grew by 78% to £71.8m (FY19: £40.4m) driven principally by a 30% increase at Checkatrade to £38.5m and four months of revenue following the acquisition of 79% of eLocal at the end of November 2019. The adjusted operating loss of £13.9m (FY19: £7.4m) reflects increased marketing and advertising to both homeowners and trades as we look to expand both sides of our Home Experts platform.

At our Investor Day in June 2019, we invited shareholders and analysts to visit Checkatrade's new offices in Portsmouth so that they could see our expansion plans first hand. During the year, we made excellent progress strengthening the management team at Checkatrade, and investing in technology and marketing. We saw good growth on the demand side of the website, with consumer visits up 32% to c.24m, and made good progress on building supply, reaching 39,000 trades. Trades are an increasingly important stakeholder community for the Group, and we want to make home repairs and improvements easy for them too to help them grow their business.

Our purchase of the remaining 30% of Habitissimo and the appointment of Sarah Harmon to lead the business has brought fresh ambition and ideas to our Home Experts business plan in Spain and Latin America. Habitissimo has started working with HomeServe Spain to test the potential to sell a policy after a successful on-demand repair. We are also applying sharper focus and have decided to exit Argentina, Columbia and Peru, our three smallest LATAM operations.

In November 2019, we acquired 79% of eLocal, which gave us a profitable entry into the Home Experts market in North America. Unique aspects of eLocal's business model, such as their use of affiliates to generate high volumes of lead calls and relationships with national accounts to satisfy these at scale, are already proving informative to our other Home Experts businesses.

In May 2020 in France, following a successful test of the Home Experts model in the Lyon area, we entered into a new structure to scale the business. The management team will own 80% with HomeServe taking a 20% stake with an option for us to increase this in the future, once the business has achieved national scale.

Discipline and focus

We maintain a disciplined approach to capital allocation and constantly review our investment priorities. In the course of this year, we sold our stake in our Italian associate. I constantly challenge my management team and myself to be bold in the pursuit of our highest potential opportunities, but also in testing, learning and exiting projects if necessary. As our business expands and opportunities multiply, this discipline will become more and more important.

Consumers and insurance partners have been slower than expected to adopt smart leak detection technology and we have consequently impaired our existing LeakBot assets. We will continue to run trials with insurers and our revised business plan frees up management resource and reduces investment as we preserve the intellectual property and look to use LeakBot as a cross sell opportunity to accelerate other initiatives e.g. HomeServe Now.

COVID-19 response

Responding to the developing coronavirus pandemic dominated the last three weeks of our financial year. Our top priority was to do the right thing for our staff, in the knowledge that they would look after our customers. Within two weeks, all of our c.6,000 office-based staff, including contact centre agents, were working successfully from home, thanks to a monumental effort by operations staff and recent technology investments. In the field, we put additional social distancing procedures in place to safeguard our engineers, contractors and customers, and continued to respond to emergency repair requests in all the countries where we operate, in line with government guidance. We took the decision not to furlough or make redundant any staff as a result of the current crisis.

At Checkatrade, we acted fast to support our trades community – another vitally important stakeholder group. Trades were proactively offered a 50% membership discount for April and May if they wanted to continue to feature in consumer searches. If they wished to maintain their presence on the platform but, for now, not appear in searches, they were offered free-of-charge affiliate membership. This is also being offered to new trades that wish to join and start creating an online presence.

I have always known that HomeServe is full of dedicated, talented people. I could not have been more impressed by their response to the coronavirus crisis, which epitomised The HomeServe Way – our key leadership behaviours and skills. We adapted quickly and efficiently to new ways of working, and went beyond the call of duty to help our customers. The actions by our UK team merit a special mention, where the team launched a special offer of free emergency plumbing and heating repairs for NHS and social care workers, aiming to do around 10,000 free jobs for them during the lockdown period. The response has been phenomenal, with well over 2,000 jobs completed to date, and we were all delighted to be able to help the front line healthcare staff who continue to demonstrate such enormous bravery and dedication.

To our NHS and Social Care workers
**You're taking care of us,
 let us take care of your homes.**

Got a plumbing or heating emergency
 during lockdown?

We'll repair it for FREE

Chief Executive's review Continued

Current trading

In Membership, we expect our business model to remain resilient. Policy retention – the key top line driver – remained in line with historic trends through April and early May (FY20: 82%), there has been no noticeable increase in cancellation attempts and our internal measures for customer satisfaction returned some of their best ever scores in April. Response rates to marketing campaigns held up well through March and online new customer sign-ups continue. The Membership cost base is approximately one third variable, with marketing spend discretionary and affinity partner commissions linked directly to new sales and renewals. April to September is in any case a quieter period for marketing. We have decided to pause most large scale campaigns and will test regularly on a small scale to assess response rates. This action will affect new customer additions, but also reduce costs.

Checkatrade, Habitissimo and eLocal experienced falling demand from consumers from mid March in light of government directives to minimise unnecessary contact. At Checkatrade, 78% of trades have moved to the 50% discount offer, while 22% have moved to free affiliate membership. We have had an encouraging response from new trades joining up as they focus on how they will rebuild their business post-crisis. Around half of new trades signing up are choosing paid rather than free affiliate membership. Consumer marketing has been substantially reduced at Checkatrade, while in Habitissimo and eLocal, there is a natural offset between reduced traffic on the platforms and the expense involved in generating leads. The performance of these businesses is currently much less material to the Group's overall financial performance, accounting for less than 10% of revenue and are all still in their investment phase.

We are continuing to work on key innovations – notably HomeServe Now and at Checkatrade – in anticipation of substantial demand for home repairs and improvements when the period of lockdown ends. Some of the new ways of working we have learnt during the crisis – telefixes over the phone and video quotes at Checkatrade – will continue to play a valuable role when the crisis is over.

Mergers and acquisitions activity is largely on hold for the time being, but HomeServe is ready to act quickly as quality future opportunities arise.

To complete the Viability statement (page 47), the Directors assessed the viability of the Group over a three year period to 31 March 2023. We have modelled additional stress test scenarios linked to the COVID-19 pandemic. Stress tests indicated that no single scenario would impact the viability of the Group over the next three years and HomeServe's swift response to the crisis means it is well placed to face the ongoing challenges the crisis presents. Trading metrics have remained stable since the onset of the pandemic; the Group

has demonstrated its ability to continue to provide a good level of service and its funding position remains healthy. As might be expected the impact increases if different risks were to materialise simultaneously or continue for longer. However, given the nature and relative diversification of the business in terms of both geography and the Group's global business lines, it is considered unlikely that such scenarios in sufficient number would occur. In such scenarios HomeServe would be able to take decisions to protect the profitability of its business.

Outlook

The situation with COVID-19 is unprecedented and continually evolving, and it has never been more difficult to predict the year ahead. In light of this we are taking action to preserve profitability and reduce discretionary spend and capital expenditure, while at the same time preparing to meet pent-up demand for home repairs and improvements as our customers come out of lockdown.

Our current working assumption is that the world will gradually come out of lockdown over the summer months of 2020. In this scenario, we will continue to work towards our stated medium to long-term targets for growth in North American Membership & HVAC, and Checkatrade, with breakeven at Checkatrade likely to be delayed from FY22 until FY23. Adjusted operating profit at eLocal in FY21 is now expected to be in excess of \$10m.

Given the resilience of our business model, we expect to deliver a solid performance in FY21, with our prospects for growth thereafter unchanged.

Dividend

Given our strong performance in FY20 and expectation of resilience in the year ahead, the Board proposes a final dividend of 17.8p, to take the total dividend for the year to 23.6p, up 10% and in line with earnings growth.

Conclusion

I expect the coronavirus pandemic to permanently change the way we think about our homes. Many of us have learnt that we can work successfully from home, and may be considering how to work from home more in the future. Our appreciation of a safe, agreeable home environment has never been greater. Which means that HomeServe's purpose of making home repairs and improvements easy has never been more relevant.

I would like to finish by expressing my heartfelt thanks to my colleagues for all they have done to support our business and our customers this year. I look forward with confidence to many more successful years ahead.

Richard Harpin

Founder and Chief Executive
19 May 2020

Putting our customers first

Contractors engaged in HomeServe Cares work to bring relief to our most vulnerable customers.

Ms Johnson, a resident of Mount Vernon, NY, was referred to HomeServe Cares by one of HomeServe's network contractors, O'Grady Plumbing. O'Grady went to Ms Johnson's home on behalf of the city to investigate a water service line leak. Ms Johnson had lived in the home less than a year and is the sole provider for a family of six. She was anxious about the situation because she feared the city would turn off her water unless the leak was repaired quickly, and also that she would be unable to afford the repairs given her situation. Josephine O'Grady, the co-owner of O'Grady Plumbing, suggested that Ms Johnson apply for help with HomeServe Cares.

This is when Sara Parris, a HomeServe Customer Advocate, took over. After gathering all the facts and job costs, Sara called Ms Johnson with good news. Ms Johnson was overcome with joy that HomeServe was willing to help with this desperately needed repair at no cost to her and texted:

“ I want to thank you a million times for your kindness and support. We really appreciate your love and effort ”

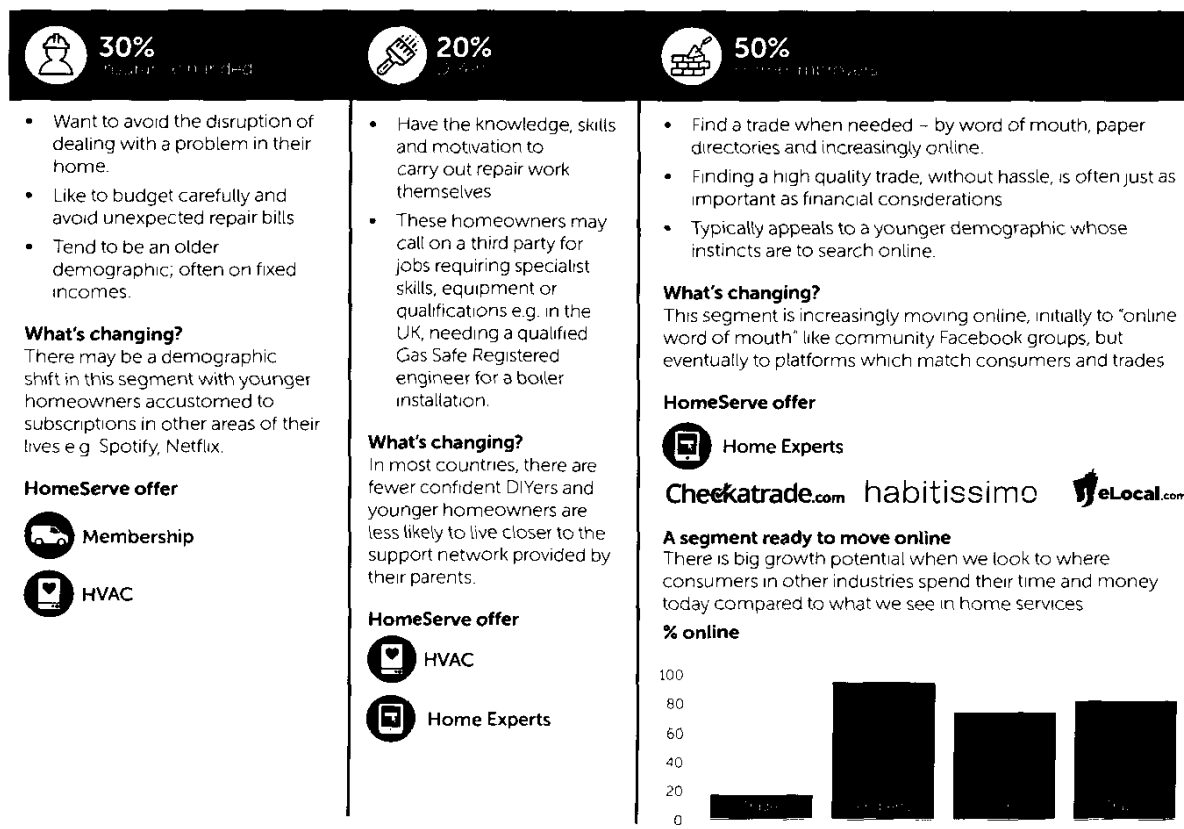
Left: Sara Parris, Customer Advocate. Right: Josephine O'Grady, co-owner of O'Grady Plumbing, is one of the only female licensed plumbers in Westchester County.



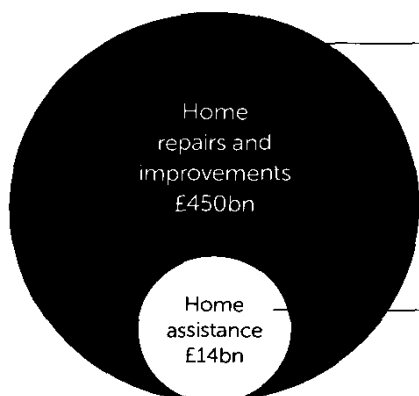
Market overview

Our target market: homeowners

Based on our experience worldwide, we segment homeowners into three groups.



Market size¹



Home Experts

This is a much broader market, covering trades from plumbing to kitchen fitting, carpet cleaning to garden design. It is an expanding market, as more and more trades categories are invented to serve the needs of modern-day homeowners. Professional flat pack furniture assemblers and home WiFi gurus did not exist ten years ago! We expect it eventually to follow property, car purchases and travel, all of which are now over 60% online.



Membership and HVAC

This is a stable market in the geographies where we are currently established, and essentially covers plumbing, heating and electrics. The key to market growth is to expand into new territories with high quality housing stock, an established utility landscape and an insurance-minded population.

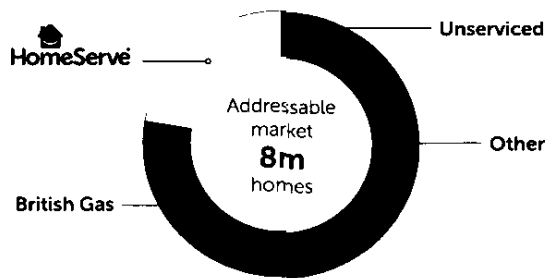
Membership is HomeServe's traditional business, which we have been operating since 1993. We are now adding to our HVAC installation capabilities in the UK, North America, France and Spain, to be able to replace equipment for customers as well as repair and service it.

¹ Market size estimates incorporate the UK, US, France and Spain and are based on national statistics where available, supplemented by HomeServe estimates

Home assistance market penetration

There is a marked difference in penetration between our most mature market, the UK, and our highest growth market in North America. Our experience shows that with most affinity partners, maximum uptake amongst their customer base is around 30% worldwide. This defines our addressable market.

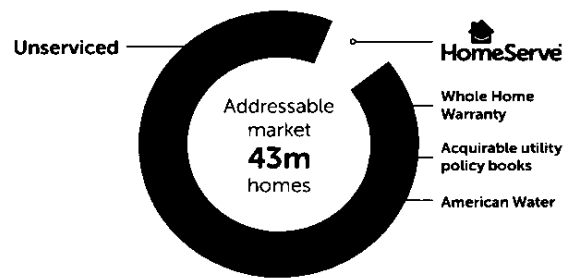
UK: 27m households



The UK market is nearing maturity. The UK is the only market where HomeServe has a bigger competitor, but the competitive dynamic is stable. There may be opportunities over time to buy small policy books or work with challenger energy companies as they disrupt the status quo.

① See more on page 33.

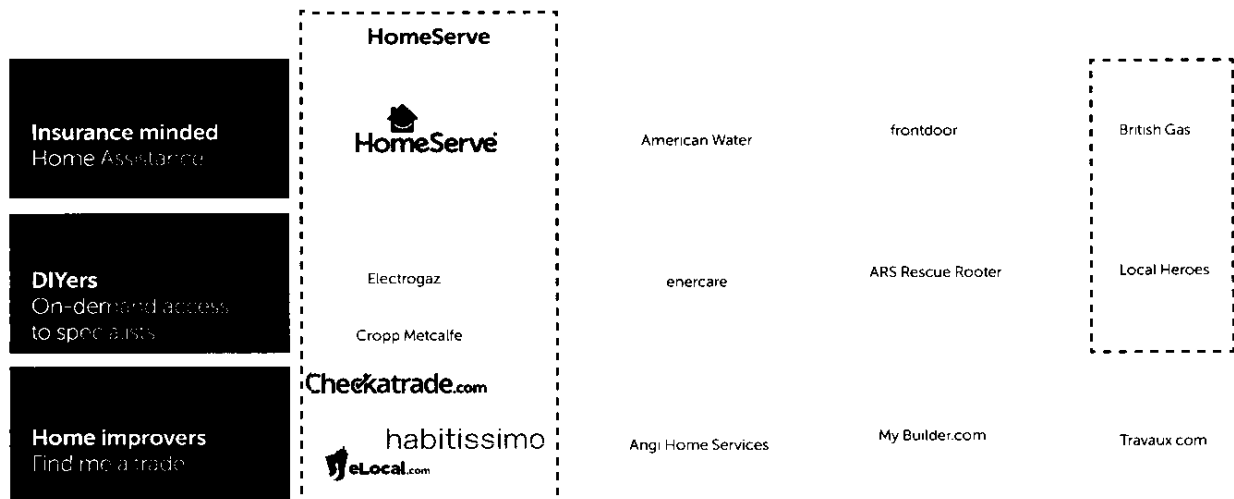
North America: 144m households



North America remains a significantly under-penetrated market. The key to growth is to sign more affinity partners to reach the over 50% of homeowners who have yet to see a HomeServe offer from their utility. There are various whole home warranty providers including Frontdoor. HomeServe is building a total home warranty offer.

① See more on page 35.

HomeServe competitive positioning



HomeServe is in a unique competitive position. There is very little competition in Home Assistance, and the directory-led model being pioneered at Checkatrade is unique. HomeServe is the company best placed to serve all three homeowner segments, and there is significant potential to create economies of scale and synergies.

Our key sources of advantage are set out in our business model (page 12). For example, in Home Assistance, HomeServe is the only company which forms partnerships with utility companies, giving us a unique opportunity to grow market share.

Business model

What we do

HomeServe's purpose is to make home repairs and improvements easy, and our vision is to be the world's most trusted provider of home repairs and improvements. We achieve this principally in two ways. To insurance-minded homeowners, we sell policies to cover a range of home emergencies via subscription-based Membership services. For people who prefer to deal with issues as they arise ('Home improvers'), or DIYers who need specialist help, we have online, on-demand Home Experts platforms that match homeowners with local trades. Our Heating, Ventilation and Air Conditioning (HVAC) installations business appeals to all types of homeowner.

In Membership, our established route to market is via partnerships with utility companies, for whom we are an important source of added value. Our data-rich marketing approach and careful product design help us to grow our customer base. Our customers stay with us because of the excellence of our customer service and the dedication of our people. Our local networks of employed and subcontracted trades ensure consistently high service standards whenever we visit a customer's home.

In Home Experts, trades (tradespeople) are our customers, and our job is to match them with consumers in their local area, who need their services. This provides our trades with an income stream and we also provide systems and processes to help them run their businesses more efficiently.

Together, our Membership, HVAC installations and Home Experts business will enable us to fulfil our aspiration of being able to do every job, in every home.

How we do it

At HomeServe, our key stakeholders are employees, homeowners, trades, affinity partners, underwriters and regulators, as well as our shareholders. We have five key sources of value for them which are distinct to us and crucial to the success of our business. These sources of value are relevant across both of our business lines – Membership, HVAC and Home Experts – meaning that we can share learnings and resources to compound our growth prospects.

① See page 18 for our Key stakeholder map. ② See page 10 for Market overview.

Five sources of value



Partnerships

We have a strong track record of developing productive partnerships with firms whose skills and assets complement ours. In our Membership & HVAC business, our most established route to market is through long-term, exclusive partnerships with utilities, heating manufacturers, insurance companies and specialist service providers. We have a substantial network of c 1,000 utility partners, and considerable expertise in managing these partnerships for mutual benefit. Our utility partners earn commission on every policy we secure through them and benefit from our long-term approach to delivering value. HomeServe acts as an insurance intermediary, and does not take any material insurance risk. Our Membership products are underwritten by independent third party underwriters. In Home Experts, we work in partnership with trades – sole traders, small and large firms – as well as specialists such as web developers.

Principal risks:

- Partner loss
- Underwriting capacity & concentration
- Information security & cyber resilience
- Regulation
- Competition



Marketing

Our three key areas of expertise resonate across both our Membership & HVAC and Home Experts businesses

- Innovative product design, where our expertise is focused on adapting to the needs of individual markets to provide products that customers value and use; responding efficiently to market or regulatory change; and creating, developing, testing, launching and assessing the performance of our products in a streamlined fashion
- Data-rich marketing, optimised across a range of channels including direct mail, contact centres and online, with sophisticated monitoring of campaign paybacks
- An increasingly powerful HomeServe brand, which is starting to resonate with consumers as well as partner businesses, as well as leading Home Experts and HVAC brands, such as Checkatrade and Cropp Metcalfe

Principal risks:

- Digital transformation
- Technology investment
- Regulation



Customer service

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

Principal risks:

- People
- Digital transformation
- Technology investment



Local networks

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

Principal risks:

- People
- Technology investment
- Competition



Financial resources and expertise

Our business is predictable, sustainable and cash generative. Our revenue streams are largely subscription based and we invest in our people, our network, our brand, our partnerships and our technology systems and processes to generate growth. We have opportunities to grow organically and through acquisition in all of our markets and have a strong track record of successful acquisition and integration. We have stringent investment criteria which we apply to organic and acquisition opportunities.

Principal risks:

- Financial risks
- People

Our principal risks, and in particular our Group enterprise risks, each impact elements of our business model, and thereby on our growth and future profitability. The impact of some but not all risks could lead to upside potential as well as downside threat. For example, market disruption in the digital world may also accelerate customer take-up; or in respect of partnerships, we may conceivably sign more partners than we expect in North America.

① See page 26 for our Principal risk and uncertainties. ② See page 18 for Resources, relationships and responsibilities.

Strategy

HomeServe's vision is to be the world's most trusted provider of home repairs and improvements. We will achieve this by developing the capabilities and services to be able to do every job, in every home. This is the core of our Group strategy. To achieve this vision, we need to grow both of our global business lines to be able to serve every customer segment, and to expand into new geographies. There are material similarities in our business model in both of our global business lines, namely our expertise in forming partnerships, marketing and managing local networks of trades (tradespeople), and at the heart of both

businesses is our unerring focus on customer service. We are disciplined in the way we deploy capital, and currently see the highest return potential from investing in Membership in North America and in Home Experts. We are also disciplined about where we will not invest and since last year, we have decided to seek a strategic partner for our principal Smart Home initiative, LeakBot.

Below, we describe the key initiatives for each business line and show how they make use of the key sources of value set out in our business model.

① See page 10 Market overview. ① Page 12 Business model. ① Page 18 for Resources, relationships and responsibilities.



Sustain and grow our Membership businesses



Overview

Our Membership business appeals to insurance-minded homeowners, and currently delivers all of our profits. We have established Membership businesses in the UK, France and Spain and a high growth business in North America

We drive growth in our Membership businesses by

- developing new partnerships to give us access to more homeowners;
- marketing effectively to turn homeowners into customers;
- adding value to our products to increase net income per customer; and
- providing excellent customer service to encourage our customers to stay with us

We have significant opportunities to deploy new technology, systems and processes to provide state of the art customer service and increase the efficiency of our operations

Developing the capability to install and replace heating, ventilation and air conditioning (HVAC) units completes the circle of service we already provide for our Membership customers. It also gives us new opportunities to sell Membership policies. Our strategy is to acquire and integrate high quality local businesses, work with their management teams and apply our marketing expertise to help them grow

Our biggest growth opportunity in Membership and HVAC is in North America.

Targets for North American Membership	FY20	Medium to long-term target
Customers (KPI)	4.4m	6m - 7m
Income per customer	\$102	\$120 - \$125
Margin (policies)	20%	24% - 26%
HVAC profit	Not currently disclosed	\$30m - \$45m
Adjusted operating profit	\$109m	\$230m

FY20 progress

In North America, we continued to sign new utility partners at the rate of almost three a week, and saw our customer base rise to 4.4m (FY19: 4.0m). We launched a new product to serve the whole home warranty market and acquired ServLine, which brings a new product and a new distribution channel.

In the UK, we focused on the customers who value our services most, and on efficiency gains and innovations such as HomeServe Now. In France, we continued to grow our partnerships with the three largest water companies, and created partnerships with challenger energy brands.

In Spain, we signed new partnerships in our Claims and Membership businesses, as we continue to look for new partnerships following the end of our Endesa partnership in May 2018.

In HVAC, we continued our buy-and-build strategy with 15 acquisitions: three in North America, five in France and seven in Spain. We track a range of metrics to assess the performance of our HVAC businesses, including the number of completed installations. As this business line matures and the number of HVAC acquisitions increase we will report installations as a KPI in each of our segments. Total installations across the Group in FY20 were 27k (FY19: 18k).

At some stage almost every home will need an HVAC unit replaced, so HVAC installation is a core capability for our business.

KPIs ① Affinity partner homeowners ② Customers ③ Policies ④ Retention rate ⑤ Income per customer

Principal risks ⑤ Competition ⑥ Partner loss ⑦ HVAC Integration ⑧ Information security & cyber resilience



Build an online, on-demand Home Experts platform



Expand into new geographies

Overview

Home Experts enables HomeServe to serve the Home Improvers customer segment: homeowners who go online to find a local trade to help them with home repairs and improvements.

We have three online platforms. Checkatrade, the UK's leading online directory of checked and vetted trades; Habitissimo, the market leader in Spain; and eLocal, where we acquired a 79% stake in November 2019.

Each platform is currently pursuing its own growth path, and we are learning from each opportunity. Over time, we expect to move towards a single winning model – Directory Extra. Homeowners will be able to choose from a directory of checked and vetted trades for substantial home improvement projects such as fitting a new kitchen – essentially using the current Checkatrade model. The lead generation model currently used at Habitissimo and eLocal is better suited for smaller, time critical jobs (such as replacing a dishwasher), so will also feature in Directory Extra.

We have a multi-year investment project under way to build out our network of trades and generate consumer demand through effective marketing, to help trades grow and manage their businesses. The most advanced investment plan is at Checkatrade.

There is potential to expand our business into well developed new territories with a stable economy and good quality housing stock, provided that we can find a committed utility partner. We have identified 15 countries where we see expansion potential.

In February 2019 we formed a joint venture with Mitsubishi Corporation in Japan, who will help us develop appropriate utility partnerships for the Japanese market.

Targets for Checkatrade	FY20	Medium to long-term target
Trades (KPI)	39,000	150,000 - 200,000
Average revenue per trade/customer	£1,023	£1,200 - £1,300
Margin	—	25% - 35%
Adjusted operating profit	—	£45m - £90m

FY20 progress

At Checkatrade, we invested in people, marketing and technology. Trades (tradespeople) on the platform reached 39,000, up 9% and consumer web visits rose to 24m (FY19: 18m).

At Habitissimo, we strengthened our management team in preparation for launching a more ambitious growth plan.

In November 2019 we acquired 79% of eLocal, which gave us a profitable entry into Home Experts in North America.

In France, following the successful test of a commercial model, we entered into a new associate relationship with the local management team to scale the business.

In January 2020 we signed our first utility partnership in Japan, with Chugoku Electric, giving us access to 2.9m homeowners.

KPIs 6 Trades 7 Web visits

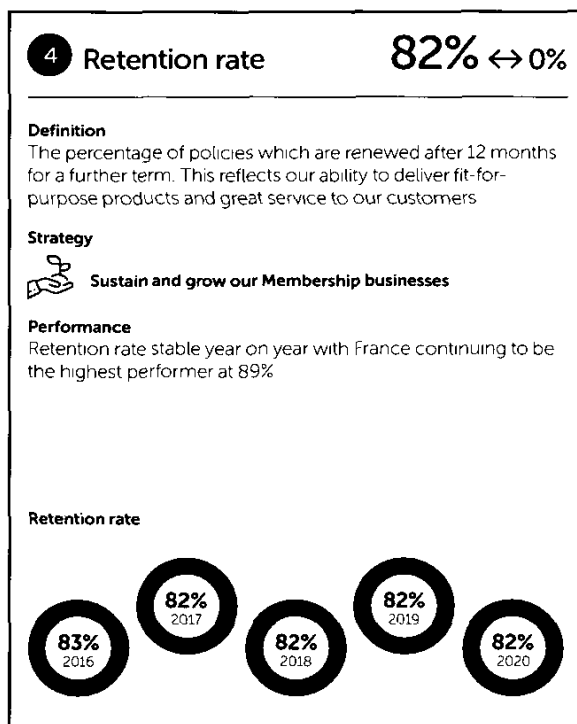
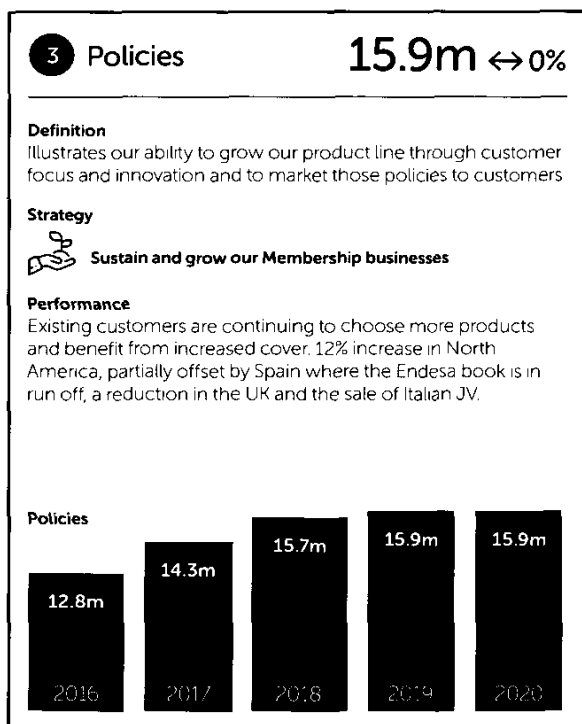
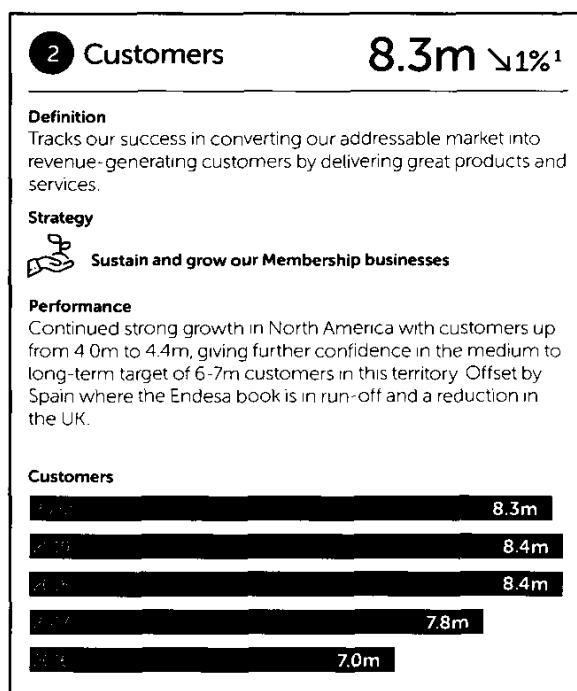
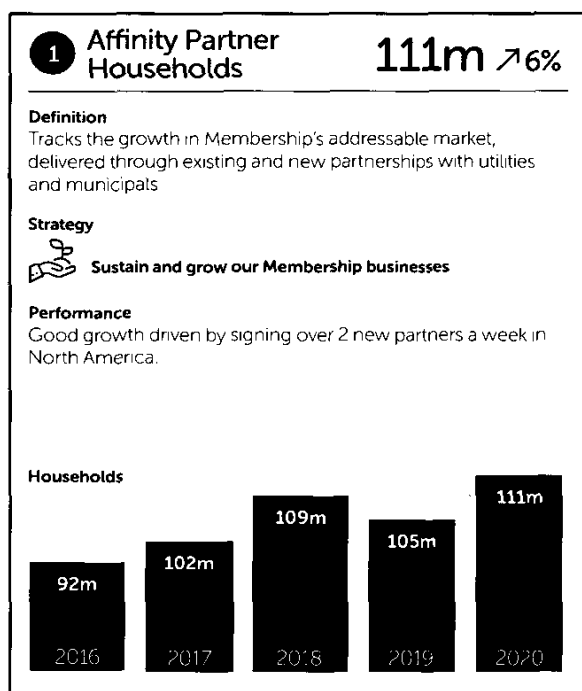
Over time as new markets are developed we will introduce relevant KPIs i.e. Affinity partner homeowners, customers, etc.

Principal risks 5 Competition 5 Information security & cyber resilience 5 Technology investment 5 People

KPIs

At HomeServe we measure progress against the key strategic initiatives of our global business lines by tracking eight key performance indicators.

Directors' remuneration is structured to support the Group's strategy and its financial and operational performance. As such, certain of the KPIs below form part of the performance measures to which Executive Directors' remuneration is linked. This is discussed more fully in the Directors' remuneration policy on page 85.



¹ Reduction reflects sale of share in Italian JV with 0.2m customers in August 2019

Definitions for each KPI are given below, in addition to the strategic initiative to which they correspond.

The KPIs, and factors driving movements on the prior year, are discussed in more detail at the country level in the Operating review.

HomeServe's use of adjusted figures and a reconciliation back to the statutory equivalents is included in the the Glossary, beginning on page 193

5 Income per Customer

Definition

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

Strategy

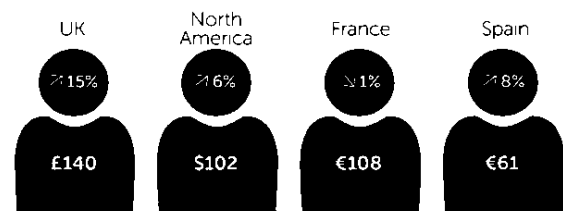


Sustain and grow our Membership businesses

Performance

A record number of new customer wins saw income per customer dip slightly in France, with all other businesses growing this measure

Income per Customer



6 Trades

66k ↑3%

Definition

The number of paying customers in our Home Experts business, being tradespeople. Tracks our progress in building the supply of a large online community of trades. For Checkatrade in particular this KPI measures progress to our stated long-term goal of 150-200k trades

Strategy



Build an online, on-demand Home Experts platform

Performance

Total trades at Checkatrade grew 9% to 39k, whilst trades at Habitissimo fell by 4k to 24k.

Trades



7 Web visits

110.9m ↑10%

Definition

Total web visits to our Home Experts platforms Checkatrade & Habitissimo. Tracks our success in driving consumer awareness of our online community of trades. This currently excludes eLocal, which was acquired part way through the year in November 2019

Strategy



Build an online, on-demand Home Experts platform

Performance

We continue to drive higher consumer awareness of the availability of local trades through our Home Experts businesses.

Web visits



8 Adjusted Profit Before Tax

£181.0m ↑12%

Definition

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

Strategy



Sustain and grow our Membership businesses



Build an online, on-demand Home Experts platform



Expand into new geographies

Performance

Double digit profit growth, driven by strong performance in North America and the UK

Adjusted PBT



Resources, relationships and responsibilities

A home is the most significant investment many of us will ever make, and everyone feels passionately about where they live. We are trusted to enter people's homes, and play an important role in home maintenance and improvement. To do this well, we have to be skilled in the management of our resources, relationships and responsibilities.

Resources thoughtful and disciplined management of people, systems and finances, with our most valuable resource being our people.

Relationships strong bonds with utilities, underwriters, suppliers, trades (tradespeople), the financial markets and critically, our customers.

Responsibilities to all of our stakeholders, upheld through robust policies and governance, our commitments to the communities in which we operate and to protecting our environment.

This year, HomeServe's Board reviewed its stakeholder relationships, considered which stakeholders will become more influential as our business grows, thought about where

we need to stimulate greater interest and resolved to apply resources accordingly.

HomeServe employs a variety of channels to engage with its stakeholders. Dedicated account managers and scheduled meetings are in place for the majority of our affinity partners consulting on such items as marketing campaign volumes and performance and customer satisfaction. Customers can choose from a number of digital, print and telephony channels and we encourage and respond to feedback left on social media or review sites such as TrustPilot in the UK. We regularly meet face to face with all underwriters not only to discuss financial performance but also topics such as customer value and contract renewals (such as occurred in FY20 with Aviva). Our 'Members Board' is just one of the ways we invite the views of our trades at Checktrade, with representatives from our trades base attending face to face discussions with the management team to discuss new initiatives such as website and search function changes and the roll out of 'managed contacts' (Checktrade-owned telephone numbers used to provide insight into call volumes).

The table summarises our current stakeholder engagement, and how we see this changing over time.



Homeowners

Homeowners are the key consumers of our services, and making home repairs and improvements easy for them is at the core of our business. It is essential that we remain abreast of their changing needs and requirements through market research and customer feedback. We want homeowners' interest in HomeServe to increase, and are working to build brand awareness to achieve this goal.



Trades (tradespeople) including directly employed engineers and contractors

We want to make home repairs and improvements easy for trades as well as homeowners. For our business to grow, the network of trades we work with must expand – be they directly employed engineers, the sub-contractor network that powers our Membership business, or the trades who find work via Checktrade, Habitissimo and eLocal. We are working to deliver value to our trades, wherever they sit in our network, and expect their influence on our business to increase as we grow.



Affinity partners and the communities they serve

Affinity partnerships with utilities provide our most important marketing channels in Membership. We continue to expand our range of partnerships, but recognise the importance of maintaining our existing relationships, understanding the pressures and opportunities in the utilities sector and delivering excellent customer service to justify our partners' faith in us. We work with our partners to add value to the communities they serve.



Underwriters and other key suppliers

The firms who underwrite the short-term cost of our Membership repair network are key suppliers, protecting our business from short-term claims volatility and enable us to always do the right thing for our customers. We will continue to manage these and other key supplier relationships carefully and review them regularly.



Our people, their representatives and the communities in which they live

We have a diverse international work force – technicians, contact centre teams, marketers, salespeople, accountants, lawyers and HR specialists to name but a few. We are investing more than ever in developing our people, focusing on key policy areas like diversity and ensuring that our people's voices are heard as we deliver our plans for growth. We encourage our people to engage in the communities where they live and work, and support them when they do so.



Financial community

We maintain a regular dialogue with current and prospective shareholders and the wider investment community to make sure they have sufficient information and contact to drive investment decisions. We invest time in our banking relationships and with our financial markets advisors.



Regulators, government, opinion formers and influencers

We maintain active relationships with our regulators and will build our relationships with government, opinion formers and influencers as our business grows.

Resources

Throughout the Strategic report, we highlight the key resources required to drive our business model, such as our investments in innovation and IT and our knowledge-based marketing operation. Here, we focus on our most important resource – our people.

Our people

HomeServe employs c.7,000 people globally, with about 45% of these being based in the UK, 25% in the US and 30% in Continental Europe. Over 6,200 people are employed in our Membership and HVAC businesses and around 800 in our Home Experts businesses – Checkatrade, Habitissimo and eLocal. We directly employ c.1,000 engineers.

We are passionate about the opportunities ahead of us for HomeServe, and we are fulfilling our people strategy by creating a high-performance culture in which a talented, engaged, diverse and inclusive workforce can thrive. This year our Group-wide people priorities were:

- Enabling a high-performance culture and environment by enhancing our global leadership capability, and the performance & reward plans which enable them to deliver.
- Continuing to build bench strength at all levels in the organisation, from extending our successful apprenticeship programmes to hiring and developing new skills and capabilities on our frontline.
- Building an inclusive culture, by valuing diversity at every stage of the employee lifecycle, and establishing a clear 'tone from the top' with regard to our more senior executive populations.
- Continuing to evolve our employee engagement strategy, as it provides vital insights into how we can make HomeServe an even better place to work.

Performance and reward

This year we undertook a review of the way we define and then reward performance, starting with our Senior Leadership Team. Key to this was ensuring that we are building the high performance culture that will enable us to achieve our growth ambitions. We have evolved both our annual and long-term performance plans to achieve much clearer alignment between our KPIs and our reward strategy by defining a more precise and focused leadership performance model.

We have also reviewed our performance management process and The HomeServe Way (the essential behaviours and skills that outline leadership effectiveness at HomeServe) to ensure they align fully with our high performance principles, as well as ensuring an equal focus on 'what' is delivered and 'how' these outcomes are achieved – through the right behaviours and collaboration across the Group.

Moving forward we want to take a more agile approach to performance management, with leaders, managers and teams assessing their performance on an ongoing basis.

Our people make the difference for our customers, so a shared bonus scheme reminds us that we are working towards a common goal and means we can all share in our successes. For those of our people who are not part of the Management Bonus schemes (or any other local arrangement), the Colleague Bonus schemes provides this. It is clearly aligned to the same business objectives and is our way of saying 'Thank You' to all of our people for their contribution to our achievements each year.

Apart from contributions to legally required social security state schemes, HomeServe offers market aligned and competitive retirement provisions across the Group.

Additionally, our Global Share Incentive Plan, One Plan, offers our people the opportunity to invest in HomeServe shares. Our people can contribute between £10 and £150 per month (or local currency equivalent) to become owners in the Company.

Engagement – A Great Place to Work

This year, 86% of our people shared their views in our Global People Survey (GPS) and, once again, the results were encouraging. For the past two years, our overall engagement remains at 71%. We ran a 'check in' Pulse Survey in December and were very pleased to see a 6% increase in the number of our people who believe action has been taken based on the results of the GPS.

	Global Engagement Survey	
	2019	2018
Engagement Score	71%	71%

In addition to participation in the global engagement survey, all businesses within the Group have the opportunity to enter into the 'Best Workplaces' recognition programme, operated by our engagement partner – 'Great Place to Work'. In 2019, our Membership businesses in North America, France and the UK were all accredited as a 'Best Workplace' within their marketplace, with the UK and France going on to be ranked as 2020 Best Workplaces. We expect additional markets and business units to receive this local accreditation in the next 12 months. Over time we aspire to be recognised as a 'World's Best' workplace at HomeServe Group level.

HomeServe is committed to employee involvement throughout the business. The Group is intent on motivating our people, keeping them informed on matters that concern them in the context of their employment, and involving them through local consultative processes. Where there are recognition and bargaining agreements with trade unions, the consultation process is established through national and local trade union representatives and through joint consultation committees.

Resources, relationships and responsibilities

Resources continued

Talent and development

Our Group-wide Talent Programmes are designed to accelerate the development of high potential talent across the business, reflecting our ongoing commitment to develop and promote talent from within. The programmes are aligned with principles of The HomeServe Way. Our strategy aims to intervene at pivotal points in the leadership careers of our most promising people, upskilling them with the readiness and mindset to do more at the next level of leadership.

At a more local level, we put a clear focus on developing emerging leaders as they transition into their first role as a line manager. In HomeServe North America, HomeServe University has developed the LEAD Pathway, a selection of courses designed to build essential leadership skills. Courses are curated into programs targeted to Aspiring, Newly Hired or Promoted First-Time, Frontline, Mid-Level, and Senior-Level Leaders.

In the UK, we are continuing to cross-train our customer service agents in multiple areas, adding not only to their knowledge base to serve our customers, but also increasing their likelihood of taking on more responsibility in next level roles.

We continue to review the critical talent imperatives for the business, including leadership succession planning, a minimum of twice yearly through the HomeServe Executive Committee and the Board People Committee. A set of global talent measures are in place so progress can be measured and reported bi-annually. One of these measures focuses on using global mobility as a targeted way of meeting both strategic business and individual talent development needs.

To ensure we are hiring the best leadership talent across the Group, this year we transformed our talent acquisition proposition to ensure we consistently attract and select the right people to drive our growth aspirations. A new four stage

The HomeServe Way



I lead with **Courage**:

I believe in our strategy, keep things simple and strive for great results and continuous improvement, I am decisive, speak my mind and confront challenges; I value innovation, "failing fast" and learning from experiences



I lead with **Persistence**:

I work hard, do my best, take responsibility and am accountable for delivering results; I am optimistic, have a "can do attitude", choose action and make things happen; I am resilient when faced with setbacks, collaborate, and find solutions.



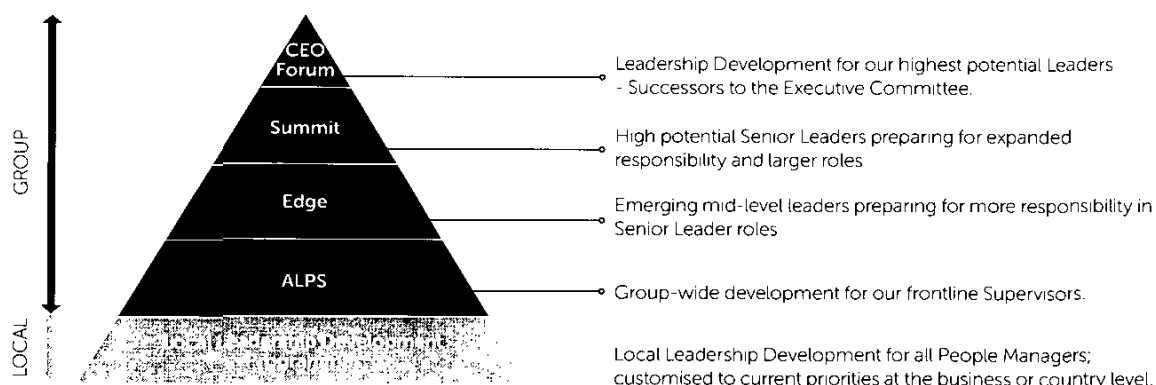
I lead with **Integrity**:

I am honest, act with integrity and seek the truth, I value open communication and debate and listen respectfully to challenges and opinions; I act with humility and openness and embrace diversity to build great teams

hiring process has been embedded across the Group for all senior leader recruitment. This ensures that we are being consistent in the way that we assess the capabilities of future talent and test the potential candidates have to develop into bigger roles.

Acquiring the skills we need to operate the business both now and in the future requires a particular focus on building our supply of talented and well trained technicians and other skill sets. In our UK business, 175 people have been engaged in apprenticeships, covering 23 subject areas. The Apprenticeship Academy is based out of our Nottingham training facilities. Our purpose is to support trades (tradespeople) – whether we have a relationship with them or not – to unlock the Apprentice Levy and in doing so, help create the next generation of tradespeople. Ultimately,

Since 2018, 63 emerging leaders have completed the Edge Talent Acceleration Programme with 37% promoted to larger roles.



our aim is to help consumers find the very best trades whomever they choose to use.

Diversity and Inclusion

At HomeServe, we take a progressive approach to inclusion and diversity because we want everyone to be themselves and bring their own perspectives to our business. We do not tolerate discrimination in any form and our people are always considered for employment, development and promotion solely on the basis of their ability. Releasing the talent of every employee is the ultimate aim of our approach to diversity & inclusion, as it is only by achieving this that we benefit from the many different and unique perspectives that our people bring to our business.

In the UK, Femi Barnisaiye, Chief Information Officer of HomeServe Membership Ltd., was recognised as a Top 50 ethnic minority leader by Involve, the London based D&I consultancy. Under Femi's sponsorship, four diversity networks have been established for BAME, LGBT+, Disability, and Gender, appointing volunteer senior leaders and deputies to head these steering groups, and devising a new inclusion agenda.

In France, the Talent Acquisition team devised a new way of screening potential contact centre agents who possess the right skills to provide the best customer service. This was done through 'job dating' sessions, 10 minute conversations where hiring managers and recruiters initially screened candidates based on their interpersonal skills alone, not their CV. This eliminated any personal or experiential identifiers that could contribute to unconscious bias. The process resulted in several second interviews and ultimately 19 new hires.

It is especially important to us that we have the right level of diversity of talent at the senior levels that are responsible for our strategic thinking and decision making. We are especially focused on achieving an ongoing annual increase in female representation across our most senior and executive populations. As at March 2020, women made up 33% of our senior leadership roles globally, whilst representing 42% of our global workforce.

Our performance in the 2019 Hampton Alexander report was as follows:

Benchmark	Board	ExCo	ExCo & Directs
FTSE 250 2019	29.4%	18.6%	27.9%
HomeServe 2019	22.2%	11.1%	26.2%
HomeServe 2018	20.0%	0.0%	21.4%

Whilst we made solid progress in 2019, the rest of the FTSE 250 made more progress, particularly at the Board and Executive team level. We are pleased that our broader global senior leadership team has 32% female representation, but there is clearly more to do at the executive level. We are now committed to accelerating our focus on this key agenda and

have agreed to work towards 33% female representation on a combined basis across our Board, Executive Committee and their direct reports by March 2021, moving us towards the targets set out in the Hampton Alexander report.

	Male	Female	Total
Total employees 31 March 2020	4,197	3,004	7,201
Total employees 31 March 2019	3,311	2,990	6,301
FY20	58%	42%	100%
FY19	53%	47%	100%
Plc Board (Executive & Non-Executive Directors)	7	2	22%
Executive Committee	9	1	10%
Global Senior Leaders	111	53	32%

Since publishing our first mandatory Gender Pay Gap report for UK employees in 2017 we have seen a year on year increase to the mean hourly rate pay gap.

Entity	Mean pay gap		
	2019	2018	2017
HomeServe Membership	21.1%	19.2%	15.7%
Help-Link ¹	N/A	35.6%	35.3%
Checkatrade	39.6%	2.7%	22.2%
HomeServe 'UK'	22.3%	20.8%	20.5%

¹ Help-Link has <250 employees. The business is being integrated into Membership with employees transferring across (included within HomeServe Membership above)

There are two key drivers of our pay gap – the balance of women in our senior leadership roles and the low volume of female water and gas engineers, which is in line with the national average. In HomeServe Membership for example, a large number of higher paid male engineers occupy the upper middle and upper quartiles pay bands (upper middle quartile for our 2019 report starts at £26k).

We are confident despite the widening of our gender pay gap that we reward jobs of equal value equitably and fairly. The measures that we have put in place to ensure that women have the opportunity to progress their careers and reach the highest level are having a positive effect. Progress has been made in the number of women occupying senior roles in the last 12 months which will have a positive impact next year. Likewise in HomeServe Membership 98 management hires were made in 2019 - 50% of those recruited were female. This shift in the number of female managers has been delivered through balanced shortlists, provision of mentoring schemes and development opportunities, as well as a drive to promote internally.

Resources, relationships and responsibilities

Relationships

Our business model depends on our ability to create, develop and maintain high quality relationships with all of our stakeholders. With groups such as underwriters, the financial community (considered in more detail on page 60), government and regulators, our relationships are well-established and generally stable. Below, we discuss the relationships which will evolve most as we deliver our growth strategy.

Homeowners

In our Membership businesses, our fundamental relationships are with our customers – homeowners. In each geography, we have a set of customer promises which are embraced at every level, from the front line to senior management and the Board. Customer satisfaction features prominently in our management bonus schemes and we have fostered a culture which places the customer at the heart of our business. We have a strong reputation for customer service and we continue to win awards for high levels of customer service in all of our established Membership businesses.

Affinity Partners

We continue to develop our relationships with our affinity partners – mainly utility companies. For these partners, the main benefits of working with HomeServe are a new revenue stream from commission payments, but much more importantly, an opportunity to deliver a valuable service to their own customers. In some cases, a public service utility prefers not to accept commission from us, and will ask us instead to sponsor community projects in their location, which we gladly do. Key developments with affinity partners in this financial year included continuing to sign new utility partnerships in North America; deepening our relationship with our biggest partner in France, Veolia; continuing to work with Endesa in Spain on billing and re-activation marketing, even though the partnership came to an end in 2018; and signing our first utility partner, Chugoku Electric, in Japan.

Affinity partner testimonial - Liann Walborsky, Director of Corporate Communications at San Jose Water.

“Our partnership with HomeServe has been highly beneficial to our customers as well as to San Jose Water. Their collaborative approach allowed us to quickly and efficiently launch the partnership after the contract was executed. This included developing educational materials that reflect our brand and values, and providing training for our customer service staff. HomeServe continues to be great to work with and remains highly attentive to our needs. They have a true commitment to customer service and satisfaction. Additionally, our customers appreciate that San Jose Water is informing them about these protection plans.”

Contractors

As our business grows, we are also expanding our sub-contractor network of engineers to complete repairs for our customers. A key benefit for our sub-contractors is that we provide them with a reliable source of work, as well as tools to improve the efficiency of their business like job scheduling technology. We monitor customer satisfaction for contractors rigorously and, because we are a key supplier to them, are able to call for more resources when we see a surge in jobs.

Contractor testimonial – Jonathan Brickley, Owner, Sunflower Services, El Dorado, Kansas

“We’ve been very happy with our relationship with HomeServe. I don’t believe I’ve ever worked with a company where the management team are as quick to respond to a contractor’s request or question. We’re a family-based business and reputation is very important to us in the community and the surrounding area. So to be able to work with a company that has those same values really allows us to partner in a way that is very beneficial to customers. Customers are not only working with HomeServe, that does what they say they’re going to do, they are also working with a contractor that has the same principles and will provide a good service.”

Trades (tradespeople)

In our Home Experts businesses, our key relationships are with trades, who are our customers, either paying a subscription (the directory model, used in Checkatrade) or per lead (in Habitissimo and eLocal). We are working hard to create a trades community, to make sure trades value their participation and continue to benefit from being on our platforms for many years to come.

Trades testimonial - Dave Baker, B&W Plastering, Bishops Stortford

“We’ve been part of Checkatrade for the last 3 years now and we have not looked back. It’s been an incredible platform for us to not only generate more work but to meet the fantastic people that make up the local community, and beyond.”

Responsibilities

HomeServe's robust Corporate Governance, which is covered in detail from page 52, is underpinned by a comprehensive policy framework which governs and is fully embedded across all of our Membership businesses in the Group.

Membership businesses are requested on an annual basis to self-certify their compliance with the key governance policies which form part of that framework. A similar policy framework is being developed for all other businesses and will be rolled out during FY21. In the meantime, the Group's key governance policies have been communicated widely. In relation to newly acquired businesses, where due diligence enquiries during the acquisition process have highlighted any significant gaps against the Group's standards steps have been taken to address these in a timely manner.

Compliance with policies is monitored and reviewed over the course of the year. Example monitoring includes, but is not limited to, sample testing of self-certification, formal reviews by the Group Legal team and inclusion in Group Audit & Assurance plans. All policies were deemed to be operating effectively in 2020.

All of our policies below can be found on our corporate website: <https://www.homeserveplc.com/about-us/corporate-governance/policies>

Financial Crime and Sanctions policy

HomeServe conducts its business with honesty and integrity and as a result promotes an organisational culture from the top down that does not tolerate any act of financial crime, including fraud or bribery, in any area of our business. HomeServe is also committed to compliance with the sanctions laws of every country in which we operate and of the United Nations. These commitments are reflected in our Financial Crime and Sanctions policy, compliance with which is audited on a regular basis.

Human Rights

HomeServe does not currently have a standalone human rights policy but all businesses are expected to comply with

our key governance policies which address such matters as employment rights, equal opportunities, the privacy of personal data and dignity at work.

Code of Business Conduct

HomeServe operates a comprehensive Code of Business Conduct which applies across the Group. The Code sets out the standards of behaviour expected of all employees and workers, and includes guidance on conflicts of interest, use of company property, political and charitable contributions as well as some of the key governance policies described in the section above.

Whistleblowing

HomeServe is committed to the highest standards of quality, honesty, openness and accountability, and our employees have an important part to play in ensuring that we deliver on this commitment. Employees are often the first to notice when someone in a company is doing something illegal or improper but they may feel worried about voicing their concerns. Our whistleblowing policy makes it clear that anybody may raise any concern about illegal or improper behaviour without fear of victimisation, discrimination or disadvantage. We have a confidential online and telephone service in place, run by an independent third party, which all employees may contact.

People

Our people are considered for employment, training, career development and promotion on the basis of their abilities and aptitudes, regardless of physical ability, age, gender, sexual orientation, religion or ethnic origin.

We actively promote the career development of our people. Full and fair consideration (having regard for a person's particular aptitudes and abilities) is given to applications for employment and the career development of disabled persons. We take all practicable steps to ensure that if one of our people becomes disabled during the time they are employed, their employment can continue. We continue to review both performance and potential as a key part of our annual talent management and development processes.

Resources, relationships and responsibilities

Responsibilities continued

Health & Safety

With c.7,000 employees globally, the health, safety and wellbeing of HomeServe's people is central to what we do and we strive to provide safe working environments and support for all our people whether they are routinely office-based or completing work in our customers' homes. HomeServe targets zero work-related injuries and illnesses.

David Bower, Chief Financial Officer, is the director responsible for environment, health and safety matters. Local HR directors lead health and safety matters in each business and are responsible for executing environmental and health and safety policies, except in the UK where responsibility rests with the health and safety director. Any new businesses acquired are expected to apply the same focus to comply with the Group's policies.

During FY20, HomeServe saw a reduction in both accident frequency rates and lost time injury rates across all of our businesses with the exception of North America, where an increased level of HVAC acquisitions created new challenges. The rates reported demonstrate a positive improvement to the comparable period and should be indicative of the pro-active work that continues across the Group with improved awareness and an increased accuracy of incident reporting. Each business continues to monitor rates and take a practical approach to performance by identifying actions to improve which are monitored through annual health and safety improvements plans.

PwC was engaged to conduct health and safety audits and health and safety remains as an annual item on the Internal Audit agenda.

In the UK, health and safety culture has improved greatly over the past two years with an upturn in reported accident volumes.

France continued to see low accident rates even with the integration of newly acquired HVAC businesses Electrogaz and VBGaz, with the key driver being mandatory training and employee awareness campaigns.

North America has seen an increase in both accident rates and lost time injury rates, which is to be expected with the increased acquisition activity and awareness campaigns to support with incident reporting. Initiatives such as a triage hotline have also proven to be a success in managing injury severity. The implementation of a new environment, health and safety enterprise system continues to be a key focus for the business which will further improve the control, oversight and management of safety incidents and activities more efficiently through FY21.

Spain's accident and lost time incident rates continue to be stable. The key health and safety focus for the business this year has been to increase awareness, to support a robust reporting process and a positive health and safety culture.

The Home Experts businesses Checktrade and Habitissimo have both seen a reduction in accident and lost time rates. Both businesses have made significant progress in developing and implementing health and safety specific training, prompting healthy habits and engaging with the business with regards to mental and physical wellbeing.

Carbon emissions continue to be measured across all Group companies and there has been no prosecution or other enforcement action taken in respect of our business by any of the health, safety or environmental regulators.

Communities

HomeServe's community activities are organised business by business, to enable us to focus on causes our people are passionate about and make a positive impact on the local areas in which we operate. Across our business, the skills of our people and our trades (tradespeople) networks enable us to help less privileged members of our communities with home repairs and improvements. Particularly in North America, we engage in community activities alongside our affinity partners.

In **Spain**, 62% of our workforce participated in volunteering activities last year. Charities supported included the Spanish Cancer Association and Down Madrid Foundation, and around fifty employee volunteers joined with their families and franchisees on building renovation projects. Thirty of our people cooked and helped to prepare a charity Christmas lunch for 1,000 homeless people.

In **France**, we renewed our partnership with Habitat & Humanisme for the fifth year. Our engineers carried out 43 repairs to social housing, and our people raised over €6,000 from sponsored running and cycling events. The "BOOST!" programme ran for its second year, and funded eight employee-proposed projects for between €500 and €2,500. As part of our "Best Customer Service of the Year 2020" contest, during which we organised sport events, we also made a donation of €4,700 to the "Sport dans la Ville/ Sport in the City" association which helps youth in their social and professional integration through sport.

In **North America**, FY20 saw the launch of the HomeServe Cares Foundation (HSCF), whose mission is "Spreading Hope and Supporting Communities One Home at a Time". The HSCF is built on four pillars.

Caring for People

The Caring for People pillar is the banner under which we support vulnerable people, whether in the communities we serve or in our company.

Caring for Community

Through the Caring for Community pillar, the HSCF awards grants of varying amounts to municipality and non-profit organisations. In FY20, awards were made to eight organisations.

Caring for Veterans

The Caring for Veterans pillar is designed to help us support transitioning military personnel, veterans and veterans' organisations throughout the U.S. A core focus for the HSCF is partnering with our nationwide contractor network to help them identify, recruit, train and retain veterans in the trades.

Caring for Good

The Caring for Good pillar was designed to engage and inspire our people to be part of our social responsibility efforts. In FY20, our people participated in six volunteer events coordinated by the HSCF where they helped demolish, build and refurbish houses for Habitat for Humanity, clean up and revive a small community park, and prepare meals in a community food pantry.

In **UK Membership**, we continued to invest in the communities where our people and their families live and support the charities our people care about. All staff benefit from two days volunteer leave, matched fundraising for team chosen charities, our programme to purchase an extra day holiday with funds going to team charities and support of local schools with skills development and mentoring.

At **Checktrade**, our workforce continues to take charity leave to support individual causes which are close to them. Our employee-elected company charity of the past year was Dementia Support, and we fundraised for them in a variety of ways including a spooky sweet treats bake sale at Halloween and wear a Christmas jumper day. We supported International Women's Day in March by hosting an inaugural inclusive event at Checktrade HQ.

Environment

HomeServe's environmental impact has moved up the Board agenda this year. The services we provide to our customers deliver environmental benefits such as reducing water leakage and replacing boilers with more energy efficient models. We want to build on these benefits and look to reduce the environmental impact of our operating model.

We started a programme of pragmatic actions across our global business and will continue to focus on these activities next year. These activities are enabled through a global group of employee green champions and driven through a programme of ongoing internal communication and education:

- Improved recycling provision in all office locations
- Reduction of single use plastic
- New policies to reduce business travel
- Move to renewable energy across office sites
- Replace office and outside lighting with LED alternatives
- Encourage paper free meetings and reduce printing and paper usage
- Discussions with current and potential suppliers to establish common environmental goals.

In the course of the coming year, we will give further consideration to whether our global business should unite around a bigger, more impactful environmental goal to benefit the communities in which we operate.

Meanwhile, this year, our business units have made progress on individual environmental initiatives, including the following highlights:

- UK Membership are testing a customer proposition to install domestic electric vehicle charger points. Their catering facilities have removed all single use plastic items, replaced with compostable Vegware alternatives.
- Checktrade employees are able to lease an electric vehicle through salary sacrifice and are the benchmark for HomeServe Group in their new Portsmouth office design with paper-free environment as standard, sustainable catering and recycling provision.
- Spain have achieved ISO 14001 certification in recognition of their environmental management system

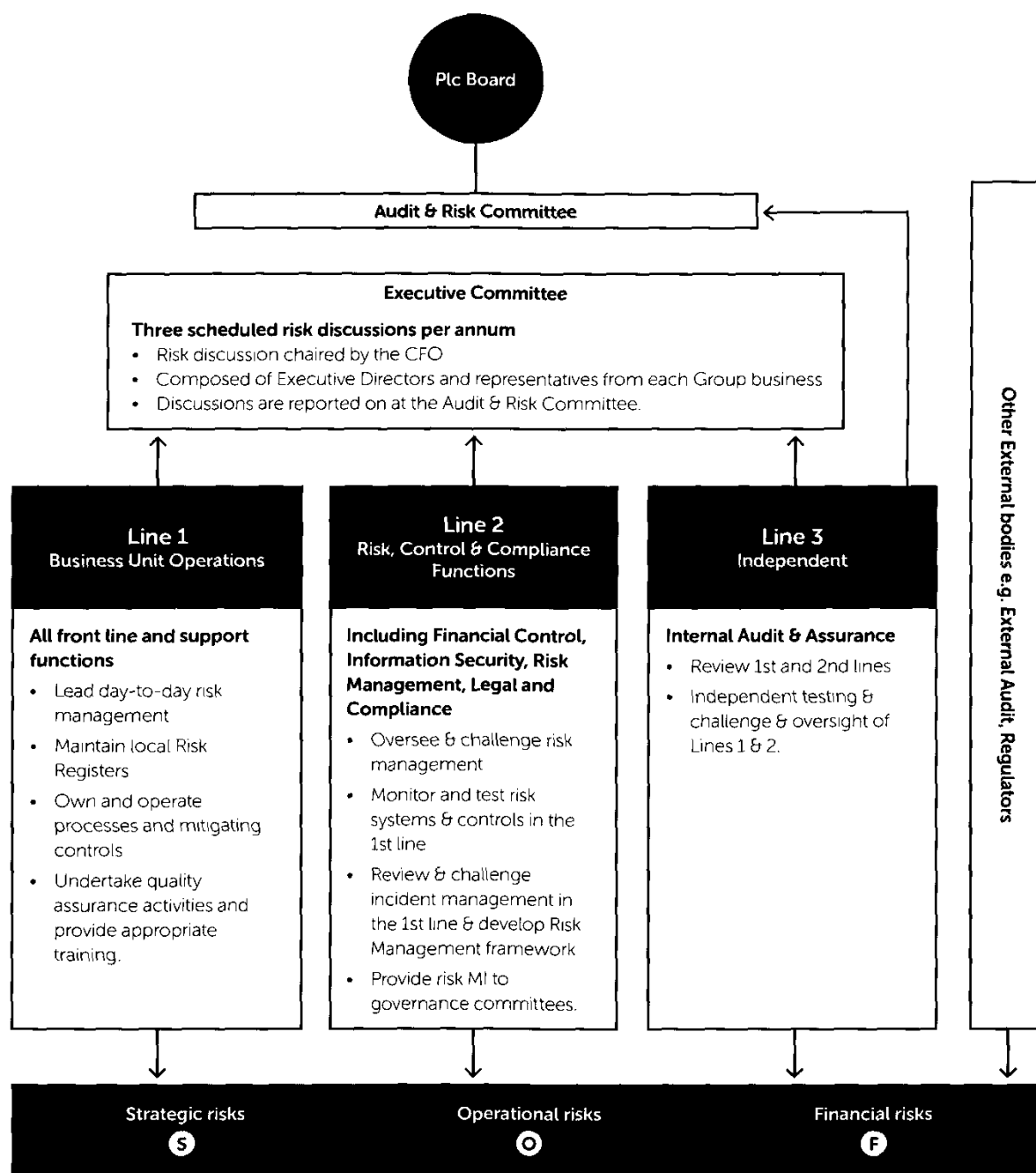
① For information on our greenhouse gas emissions, please see Directors' report on page 107.

Principal risk and uncertainties

Risk framework

HomeServe has a robust risk management framework which encompasses the Group's risk policy and overall risk appetite. The framework utilises the three lines of defence model which is recognised as best practice across the industry. It provides a disciplined and consistent approach across all of HomeServe, ensuring a structured response at all levels throughout the Group and across all businesses and geographies, to capture, monitor and mitigate risk.

This structured approach is aimed not only at monitoring and mitigating identified risks but also aims to capture and escalate emerging risks and opportunities and is best illustrated by HomeServe's response to COVID-19, the rapid move to home working for all office based staff and initiatives in the field to ensure a safe continuity of service for HomeServe's customers.



Changes in FY20

Group Enterprise Risks are considered to represent the most significant threats to HomeServe's ongoing strategy and operations. Risk registers continue to be maintained at a local level in every business and are formally reviewed by the Audit & Risk Committee at each of its meetings together with Group Enterprise Risks.

In previous years all businesses had separately considered the effects of climate change within the context of other risks. With increasing interest in this area amongst our staff, as well as other stakeholder Groups, all businesses commenced a more coherent approach this year to implement actions which improve HomeServe's environmental impact. With discussions also occurring at Board and Exec level, the potential impacts of climate change and other environmental considerations on HomeServe's business model have been considered more formally and Sustainability is now reported separately as a Group Enterprise Risk.

Whilst climate change affects all of our business lines, Membership continues to dominate the rest of our Principal risks - understandably so, given its current size relative to other business lines. However as Home Experts continues to grow and with the acquisition of eLocal, there have been movements in certain other risks and new emerging risks in Home Experts may become elevated to Group Enterprise Risks in the future.

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

Some additional, presentational, changes have been made this year to align risk labels to those reviewed internally by HomeServe's Committees and Board. Where there has been an update, the previous name is denoted below the risk label in the principal risks table.

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

Risk Appetite

In accordance with the Group's Risk Management policy, the Group risk appetite is subject to an annual review of its definition, content and criteria for assessment scores.

The Board's assessment of risk appetite is guided by our vision to become the world's most trusted provider of home repairs and improvements and by our purpose to make home repairs and improvements easy. HomeServe's values reflect our commitment to our customers, our people, to innovation and integrity and being the best at what we do. HomeServe's risk appetite is comparatively low, recognising; firstly our status as a plc which requires strong governance and reputation, together with delivering returns for our

shareholders and; secondly our regulated status which requires compliance with local laws, rules and guidance.

Risks are assessed at a local level on a gross basis using a matrix approach, to score likelihood and impact, and on a net basis after considering any mitigations which have been applied.

Brexit

Brexit has never featured as one of HomeServe's enterprise risks but it continues to be monitored at a local and a Group level following the UK's formal exit on 31 January 2020. Brexit retains the potential to be one of the most significant economic events for the UK and the full range, scale and timing of potential outcomes and impacts are not yet certain. However, HomeServe continues to believe the impact on the underlying performance of the Group will be limited.

HomeServe's businesses trade exclusively within their own borders and HomeServe is not exposed to any cross border transactional currency risk. The Group remains subject to translation risk on the presentation of results in Sterling however this is within the ordinary course of business.

COVID-19

The COVID-19 crisis is still an evolving situation which all businesses are actively tackling in a number of different respects. For example in ensuring technology is available to support staff working from home, ensuring that engineers on the front line can complete repairs whilst protecting themselves and our customers and ensuring that supplier relationships are maintained safely and appropriately to deliver the necessary protective equipment and parts and materials.

As a risk which has crystallised, COVID-19 is categorised neither as an enterprise level risk nor as an emerging risk. However consideration is being given to a wider emerging risk of the potential for other pandemics in the future. The work undertaken to switch to home working and maintain emergency repairs is being reviewed as is the impact on sales volumes, claims volumes, cancellation rates and a number of other KPIs and metrics. The results of this analysis will inform not only short-term return to work plans but also longer term risk monitoring approaches and mitigations.

Having demonstrated in the short-term that we were able to respond quickly and effectively to keep operations functioning and maintain good levels of service in all businesses, key to the longer term prospects of the Group will be the resilience of the model and consumer behaviour. In previous periods of consumer uncertainty and economic downturn, for example during the financial crisis in c.2008 to 2009, little negative impact on business performance was observed and the model remained resilient.

Impacts have so far been more pronounced on the Home Experts businesses but the portfolio effect of different business lines, and four main Membership businesses situated in different countries affords a good degree of protection for the Group as a whole and the longer term prospects for Home Experts, including Checkatrade's milestone targets remain unchanged. Underpinning the resilience of the Membership model is the type of customer it attracts; policy buyers like to protect themselves from unforeseen expenses and the difficulty of getting a good

Principal risk and uncertainties

Continued

tradesman out quickly. The additional requirement to find a provider who can perform repairs whilst adhering to strict health and hygiene guidance is an extra factor customers now need to consider.

The Group has a strong balance sheet and retains a range of financing facilities with medium to long-term maturities, which provide access to additional resources across a range of currencies. With over £330m of headroom against its debt facilities, liquidity is healthy and the Group is well positioned to face the ongoing challenges of COVID-19.






For further detailed actions and initiatives being taken as a result of COVID-19, please see page 7 of the Chief Executive's review.

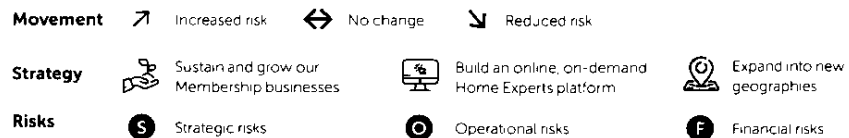
Enterprise risks

Movements in risks shown below are largely 'business as usual' but all risks are now in sharper focus as a result of the circumstances concerning COVID-19 and wider economic

uncertainty. However some risks have increased as a direct consequence of COVID-19 e.g. Cyber, as a result of c.6,000 new homeworkers.



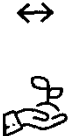

The COVID-19 situation is unprecedented and will likely have a number of other unforeseen outcomes on the risks below potentially both positive and negative e.g. M&A activity was paused as the Group exercised additional caution due to the widespread uncertainty but there is every possibility that more M&A opportunities may now arise and at more favourable multiples. For example a utility could revisit its current stance and opt to sell its policy book in order to fully focus on its core operations. Additionally there may be further upside opportunities as HomeServe advances its current product initiatives e.g. HomeServe Now and looks to meet the possibility of increased demand when situations ease across the countries in which HomeServe operates.













Overview	Mitigations	Update in year	Movement & Strategy
5 Competition (FY19 Market Disruption)			
<p>In all of our business lines a successful new entrant or an existing competitor adapting more quickly to changing customer demands and needs could adversely impact our business and our financial results with lower customers, retention rates, revenue and profitability</p> <p>Competitors with active M&A programmes could also show interest in HomeServe's targets, leading to missed opportunities or over-paying.</p> <p>Competitive threats today include, but are not limited to,</p> <ul style="list-style-type: none"> Utilities running Membership programmes in-house Adjacent products e.g. Whole Home Warranty Existing competitors moving into other geographies New entrants e.g. Amazon or Google investing heavily to enter the home services space with new products or technologies Incumbent competitors to Home Experts in the UK e.g. Rated People, MyBuilder 	<p>We demonstrate to utilities that they can benefit more by partnering with HomeServe due to our long-term investment horizon</p> <p>Regular market reviews in each business identify new entrants and increases in competitor activity e.g. aggressive pricing initiatives</p> <p>Agile product development responds to changing consumer needs</p> <p>Shared learning between our markets, analysing consumer trends and developing leading products and services</p> <p>Home Experts businesses all currently employ different models, we are adapting and learning from each of them and liaising more frequently with our Membership businesses to develop the range of services that customers want and the best means of accessing them.</p>	<p>No material change in existing businesses but acquisition of eLocal in November 2019 provided an entry for Home Experts in North America, a market where the current number one provider, ANGI Home Services is located</p> <p>eLocal management team retained as part of the deal to provide local market knowledge. eLocal is already sharing best practice with our other Home Experts teams</p>	  
5 Information security & cyber resilience (FY19 Cyber security)			
<p>In line with other businesses, HomeServe is subject to the increased prevalence and sophistication of cyber-attacks, which could result in unauthorised access to customer and other data or cause business disruption to services.</p> <p>A successful cyber attack might have a significant impact on reputation, reducing the trust that customers place in HomeServe and could lead to legal liability, regulatory action and increased costs to rectify. A lapse in internal controls and a subsequent data breach or loss would have a similar impact. Total customer numbers and policy retention rates may reduce and partners may terminate affinity relationships if they perceive customer data to be at risk.</p>	<p>HomeServe has a number of defensive and proactive mitigations across the Group. There is a detailed information security policy, which is communicated across the Group and training is provided as required. Regular penetration testing is in place to assess defences and HomeServe continues to invest in IT security, ensuring a secure configuration, access controls, data centre security and effective communication of policies and procedures to all employees.</p>	<p>Cyber continues to be a key area of focus for the Group with emphasis on both maintaining and increasing the maturity and capabilities of our controls and countermeasures. A single team has been created bringing together those people with a primary cyber security responsibility, who until recently operated with a degree of independence within individual Group businesses. The change will further enhance consistency and maturity of risk management and mitigation, as well as improve efficiency in the delivery of our strategic roadmap. A comprehensive suite of Policies and Standards remains in force. Cyber audits were completed as part of the annual assurance plan in FY20, with more visits scheduled for FY21</p>	 



Overview	Mitigations	Update in year	Movement & Strategy
<p>📌 M&A Strategy</p> <p>HomeServe has an active M&A strategy focussed on two primary areas; Membership policy books and a buy-and-build strategy to grow the HVAC business line</p> <p>There is a risk HomeServe could overpay for transactions or underestimate the time and resource required to integrate new businesses, potentially leading to lower than anticipated cash inflows and revenue, increased costs, reduced profitability and an increased likelihood of impairment</p> <p>By contrast, a successful M&A strategy should diversify risk by, for example, introducing new partners and channels, increasing profitability and should lead to increases in KPIs such as customers and policies.</p>	<p>Strict criteria when building a prospects pipeline</p> <p>Independent advisers engaged in due diligence processes</p> <p>Strong track record and experience of acquiring and growing policy books</p> <p>Local management expertise with oversight from central plc function</p> <p>Clear investment hurdles and completion of post-investment reviews</p> <p>All investments require local and, where applicable, plc Board approval.</p>	<p>There has been increased M&A expenditure this year (see note 16 for details of Business Combinations in the year) but no change to the underlying risk, with all acquisitions appropriately appraised by dedicated M&A teams and transactions approved by local and/or Group Board.</p> <p>M&A was paused post year end as a result of COVID-19. When it restarts there will be a requirement for an even sharper focus to ensure we do not overpay.</p>	<p></p> <p></p>
<p>🕒 Underwriting capacity & concentration</p> <p>The Membership business line markets and administers policies that are underwritten by independent third party underwriters. HomeServe acts as an insurance intermediary and does not take on any material insurance risk.</p> <p>These arrangements are a core part of the Membership model and help protect HomeServe from short-term risk e.g. of rising claims costs or frequencies</p> <p>Seeking new underwriters and obtaining relevant regulatory approvals may take time, leading to business disruption.</p> <p>Lack of suitable underwriters could force HomeServe to underwrite policies in-house, exposing it to material insurance risk.</p> <p>A material change in the operating model would also drive a change in accounting policy that could affect short-term profitability. Customer numbers and retention rates may fall if customers experience reduced service levels or are not covered throughout any period of disruption</p>	<p>With the exception of the UK, at least two underwriters share the policy books in each country</p> <p>In the UK, HomeServe maintains relationships with a number of other underwriters who are willing and able to underwrite the business.</p> <p>Regular (at least 6 months) reviews with all underwriters to ensure that current product performance and trends are understood</p>	<p>HomeServe's agreement with Aviva in the UK was renewed for a further 5 years and all other relationships remain strong with regular meetings conducted over the course of FY20</p> <p>We have remained in regular contact with our underwriters to discuss the potential impacts of COVID-19. Our two biggest underwriters across the Group (Aviva and Amtrust) are in a strong financial position and we do not anticipate any issues with regards to our underwriting relationships as a result of the current crisis</p>	<p></p> <p></p>
<p>📌 Regulation (FY19: Regulation & customer focus)</p> <p>HomeServe is subject to regulatory requirements relating to e.g. product design, marketing materials, sales processes and data protection.</p> <p>HomeServe believes that regulation has a positive impact and encourages a culture that promotes customers' interests and will improve HomeServe's prospects over both the short and long-term</p> <p>Like many companies HomeServe is also subject to wider regulation concerning e.g. anticorruption, anti-fraud and bribery, modern slavery etc. For more details see page 23.</p> <p>Failure to comply with regulatory requirements in any of its countries could result in the suspension, either temporarily or permanently, of certain activities</p> <p>Much regulation is intended to protect customers and failure to adhere to the high expectations customers have for HomeServe could lead to reduced retention and higher customer losses. In addition, legislative changes relating to partners may change their obligations with regard to the infrastructure they currently manage and hence the products and services HomeServe can offer to customers. It is possible such legislative changes could reduce, or even remove, the need for some of HomeServe products and services.</p>	<p>Compliance with local regulation as a minimum to ensure products are designed, marketed and sold in accordance with all relevant legal and regulatory requirements and that the terms and conditions are appropriate and meet the needs of customers</p> <p>Best practice shared across the Group</p> <p>Regulatory specialists, compliance teams and Non-Executive Directors in each business.</p> <p>HomeServe maintains regular dialogue with the FCA in the UK. In North America, there is regular contact with the Attorneys General.</p>	<p>In 2019 the FCA released its Interim Review of Pricing Practices in General Insurance in which it stated a number of possible intervention measures it may consider with regards to pricing journeys, payment methods and disclosure requirements for all insurance providers.</p> <p>The scrutiny of the wider UK insurance industry is seemingly increasing, but HomeServe maintains a robust approach to regulatory matters and we continue to monitor and await the publication of the FCA's full report.</p> <p>The FCA has also published additional guidance for insurance providers throughout the coronavirus pandemic stating their expectation that firms display increased awareness and respond flexibly to changing consumer circumstances. HomeServe is keeping its customers regularly informed via its many channels, including letters and telephony as well as online and continues to closely monitor the FCA's updates.</p> <p>There has been no change in the regulatory environments in which our other businesses operate.</p>	<p></p> <p></p>

Principal risk and uncertainties Continued

Overview	Mitigations	Update in year	Movement & Strategy
<p>Digital transformation (FY19: Digital & innovation)</p> <p>As distinct from Technology Investment (below) Digital Transformation relates principally to interactions with customers (be they homeowners or trades), ensuring we offer a multi-channel, multi-media approach to interact with them and that we do so in an efficient and cost effective manner.</p> <p>If HomeServe is not flexible enough to respond to changing needs, customers may explore competitor products and choose not to renew. There is also a reputational risk as complaints logged via social media can quickly escalate if not dealt with in an appropriate and timely manner.</p>	<p>HomeServe continues to review and respond to customer comments and needs and customers are offered a number of channels through which they can engage with HomeServe: telephone, website, Digital Live Chat, paper, email and social media.</p> <p>Recruitment is increased in areas short on the required expertise.</p>	<p>The importance of providing a flexible approach became very clear in March 2020 as restrictions on movement came into force, limiting the 'normal' day to day operations. The ability for customers to claim online or use a Smart IVR made the transition to c 6,000 employees working from home a much smoother process.</p> <p>We continue to make investment in the development of HomeServe Now, a new way for customers to gain a fast response from an available engineer.</p>	
<p>HVAC Integration</p> <p>The higher volume of HVAC acquisitions requires disciplined and often standardised processes to ensure successful integration into HomeServe, creating strong links to the Membership business and achieving synergies with e.g. the engineer network.</p> <p>Failure to integrate acquisitions quickly and effectively could result in failure to deliver synergies, and increase costs, resulting in failure to achieve predicted revenues and potentially lead to impairment.</p>	<p>Integration plans form part of all business case approvals.</p> <p>Post-investment reviews provide learning back for future acquisitions.</p> <p>Dedicated teams and resources and retention of key management personnel in the acquired businesses.</p> <p>HVAC managed locally but with a central global team to coordinate and ensure consistent application of best practice.</p>	<p>A total of 15 HVAC acquisitions were made in FY20 across the US, France and Spain.</p>	
<p>Partner loss (FY19: Partnerships)</p> <p>Underpinning HomeServe's success in its chosen markets are close commercial relationships (affinity partner relationships) principally with utility companies, and municipal utility providers. The loss of one of these relationships could impact HomeServe's future customer and policy growth plans and retention rates. Growth plans, particularly in North America, focus on signing new partners to extend reach and provide new marketing opportunities to grow the business.</p> <p>HomeServe has benefitted from government policy changes in certain regions to form new partnerships e.g. liberalisation of energy markets in Spain. Any reversal e.g. to renationalise utilities could have an adverse impact albeit HomeServe does have strong experience working with public sector municipals in North America.</p> <p>With c.1,000 partners across the Group it is inevitable that a few partners each year may choose not to renew a contract as priorities or commercial pressures change. In the UK and North America where partner bases are more diversified the impact is considered small. In France the loss of e.g. Veolia would have a bigger impact similar to that of Endesa in Spain where the back book is now in run-off. Any partner loss or failure to sign new partners could impact homeowners, customers and also retention rates, without use of the partner brand.</p>	<p>A portfolio of partners in each business diversifies risk.</p> <p>Partners signed on long-term contracts with beneficial financial terms for each party.</p> <p>HomeServe seeks to renew contracts early, ahead of any expiration date.</p> <p>Regular dialogue with all partners, particularly in markets with more concentrated partner relationships e.g. France.</p>	<p>We are signing partners at a rate of over two a week in North America and continue to renew partnerships in our other businesses.</p> <p>In January 2020 we announced our first partnership – with Chugoku Electric – for our Japanese joint venture.</p>	
<p>Sustainability</p> <p>Disruption in operations within our Membership and Home Experts businesses as a direct result of increased frequency and intensity of extreme weather events could impact on both customers and the network due to a potential change in demand e.g. as temperatures rise, demand for heating will decline potentially impacting our core business model and unpredictable weather patterns make running the network less cost effective.</p> <p>Reputational impact as all stakeholders become less accepting of businesses that do not work proactively to reduce their environmental impact.</p> <p>Increased costs to the business such as insurance, regulatory restrictions on goods linked to climate change, health and safety costs due to potentially harsher working conditions etc, disruption to supply chains creating a bigger challenge for the business with regard to materials and resources.</p>	<p>Environmental issues discussed at Exec and Board level.</p> <p>In FY21, the business will focus on pragmatic, achievable actions to reduce its environmental impact, such as improved recycling and reduced business travel.</p> <p>A carbon offset scheme will be put in place. Going forward, the Group will look for opportunities to lead on environmental issues close to the core of our business and the Board will turn its discussions towards agreeing a formal Environmental policy.</p>	<p>New for FY20.</p> <p>For more detail on our current initiatives please see page 25.</p>	

Overview	Mitigations	Update in year	Movement & Strategy
People			
HomeServe's ability to meet growth expectations and compete effectively is, in part, dependent on the skills, experience and performance of its personnel.	Employment policies, remuneration and benefits packages and long-term incentives are regularly reviewed and designed to be competitive with other companies.	HomeServe now employs c 7,000 people globally. 86% of those people completed our Global People Survey, returning an engagement score which remained in line with the prior year at 71%.	 
Retention of people in established businesses is key as is recruitment of talented people in growth businesses e.g. Home Experts.	Employee surveys, performance reviews and regular communication of business activities are used to understand and respond to employee views and needs.	In 2019, our businesses in North America, France and the UK were all accredited as a 'Best Workplace' within their marketplace. We expect additional markets and business units to receive this local accreditation in the next 12 months. Over time we aspire to be recognised as a 'World's Best' workplace at HomeServe Group level.	
The inability to attract, motivate or retain key talent could impact overall business performance.	Processes exist to identify high performing individuals and ensure that they have fulfilling careers, and HomeServe is managing succession planning effectively.	Annual and long-term performance plans have been reviewed and changes are being implemented to achieve clearer alignment between our KPIs and our reward strategy.	
HomeServe has a lot of growth opportunities and ensuring appropriate bandwidth at the top of the organisation is key to maintaining effective control and oversight.		Our performance management process and The HomeServe Way, our leadership 'DNA' have also been reviewed to ensure they align fully with our growth strategy and to ensure that consideration is given not only to what is achieved but also how it is achieved through the right behaviours and collaboration across the Group.	
Gender Pay disclosures in the UK and reviews such as Hampton Alexander also play an increasing role informing HomeServe's People agenda and ensuring we have the appropriate diversity of people, experience and ideas to move the business forward.			
International			
HomeServe has enjoyed success with its Membership model in markets outside of the UK and intends to expand to other regions.	Strict criteria to identify attractive markets.	Signed first utility partnership in Japan and initial marketing results are encouraging.	  
HomeServe has enjoyed success in France, Spain and North America but has been unsuccessful in past attempts to enter Australia, Belgium and Germany.	Joint venture structure such as that employed with Japan diversifies risk and minimises investment.	International development team continues to prospect other markets.	
Failure to succeed could divert investment and management time incurring not only losses in the new country but also reduced performance (including, for example, loss of customers, lower profitability) in the core markets.	JV partner brings local market knowledge and contacts.		
	HomeServe brings membership model systems and process expertise.		
Technology Investment (FY19: Investment in technology)			
As distinct from Digital Transformation (above), this risk principally relates to investment in the key systems the Group relies on to manage its daily operations.	All decisions are subject to the Group's strict investment criteria and hurdles. Major IT programmes are allocated specific governance structures and oversight with members of senior management sitting on the Programme Board.	The UK's new core customer management system went live in 2019. c 75% of all new customer acquisition activity is now managed through this system and migration of existing customers from the legacy system has commenced. Completing the migration in an efficient and cost effective way is a critical next step to the full deployment of the new system.	  
Appropriate and timely maintenance and investment is required to ensure systems continue to meet the changing needs of the business and its customers.	HomeServe engages a number of external advisers on large software projects to provide appropriate breadth and depth of experience and expertise to ensure there is no over-reliance on any one supplier and to support management in project delivery.	France and Spain are also conducting CRM implementations, Checkatrade is introducing a new billing engine and the Group continues to appraise the systems and processes in place at each business to ensure it is efficiently using the functionality and processes available from leading software providers.	
Home Experts, particularly Checkatrade, is embarking on a programme of transformation to ready the business for its ambitious growth plans.		Technology investments in recent years helped facilitate the mobilisation of 6,000 office based employees to working from home in support of the restrictions on movement during COVID-19.	
Failure in back office systems may lead to business interruption and lack of investment to provide timely and appropriate data could jeopardise the ability to analyse performance indicators and react to any trends.			
Over investment in any new initiatives could see investment outweigh future benefits and lead to impairment.			
Financial			
Key financial risks include the availability of short-term and long-term funding to meet business needs and take advantage of strategic priorities such as M&A opportunities, the risk of policyholders not paying monies owed, and fluctuations in interest rates and exchange rates.		A treasury management system implemented to improve global cash visibility, bank connectivity and process efficiency went live this year.	   
Interest rate risk		On 30 March 2020, HomeServe arranged an additional £50m of RCF funding. At the year end HomeServe had over £330m of headroom against its total debt facilities and only £36m of the c.£780m of facilities is due within the next 12 months.	
HomeServe's policy is to manage interest cost using a mix of fixed and variable rate borrowings. Where necessary, this is achieved by entering into interest rate swaps for certain periods, in which HomeServe agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed notional principal amount. These swaps are designated to economically hedge underlying debt obligations.			
Credit risk			
The risk associated with cash and cash equivalents is managed by only depositing funds with reputable and creditworthy banking institutions. The risk of a policyholder defaulting is mitigated as any policy cover will cease as and when any premium fails to be paid.			
Liquidity risk			
HomeServe manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows.			
Foreign exchange risk			
Short-term foreign exchange risk is mitigated with the natural hedging provided by the geographical spread of the businesses. While this will protect against some of the transaction exposure, HomeServe's reported results would still be impacted by the translation of non-UK operations.			

Operating review

Financial performance for the year ended 31 March

£million	Revenue		Statutory operating profit/(loss)		Adjusted operating profit/(loss)	
	2020	2019	2020	2019	2020	2019
UK	372.9	391.7	62.8	68.4	81.0	66.0
North America	429.5	333.4	67.6	54.7	85.4	67.6
France	111.8	104.6	26.9	26.8	33.8	33.3
Spain	154.1	140.8	19.6	17.5	20.1	17.7
New Markets	—	—	(0.9)	(2.4)	(4.7)	(2.4)
Total Membership & HVAC	1,068.3	970.5	176.0	165.0	215.6	182.2
Home Experts	71.8	40.4	(17.4)	(12.4)	(13.9)	(7.4)
Inter-segment ¹	(7.8)	(7.3)	—	—	—	—
Group	1,132.3	1,003.6	158.6	152.6	201.7	174.8

¹ Inter-segment revenues includes transactions with other Group companies removed on consolidation and principally comprise royalty and other similar charges

Membership KPIs

	Customer numbers (m)		Income per customer		Policy retention rate	
	2020	2019	2020	2019	2020	2019
UK	1.8	2.0	£140	£122	78%	79%
North America	4.4	4.0	\$102	\$96	83%	83%
France	1.1	1.1	€108	€109	89%	89%
Spain	1.0	1.1	€61	€57	83%	80%
New Markets	—	0.2	—	—	—	—
Group	8.3	8.4	N/A	N/A	82%	82%

Home Experts KPIs

	Trades (tradespeople) (000)		Website visits (m)	
	2020	2019	2020	2019
Checkatrade	39	36	23.6	17.9
Habitissimo	24	28	87.3	83.2
eLocal ¹	3	N/A	N/A	N/A
Group	66	64	110.9	101.0

¹ Annual web visits not reported - eLocal acquired part way through the year on 26 November 2019

UK

1.8m

Customers -11% from 2.0m

£140

Income per customer +15% from £122

4.9m

Policies -9% from 5.4m

Financial performance

Net policy income increased by 2% with lower customer numbers more than offset by a 15% increase in income per customer, as retained customers continued to deepen their product coverage.

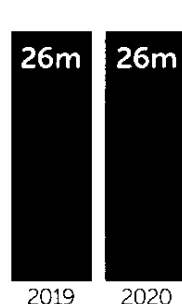
Repair network revenue decreased by 18% as HomeServe completed 0.9m jobs (FY19: 1.2m) for its customers. Lower job volumes were driven principally by a lower customer count year on year and changes in policy mix as well as a small reduction resulting from the cessation of non-emergency work (e.g. maintenance and boiler servicing) in March owing to COVID-19.

HVAC revenue fell by 16%, driven by lower installation volumes. In FY20 the business increased its focus on providing installations for Membership customers and reduced the number of sales outside of this. Approximately 100,000 customers from the 1.8m UK customer base will require a new boiler installation each year. Accessing these should require less marketing, provide a profitable revenue stream and help strengthen relationships with existing customers.

Other revenue of £12.8m (FY19: £13.3m) principally included transactions with other Group companies and income for non-insured, on-demand jobs.

Adjusted operating costs fell by 10% to £291.9m, due to reduced direct costs as a result of lower job volumes and customer acquisition as well as reduced overheads as a result of decisions taken 12 months ago on changes to the organisational design of the UK business.

As a consequence of these changes, adjusted operating profit rose by 23% to £81.0m, with adjusted operating margin up by five percentage points to 22%. The business will retain its focus on efficiency in FY21 with a margin of c.20% seen as sustainable over the longer term.

Affinity partner households

£m (million)	2020	2019	Change
Revenue			
Net policy income	249.4	244.0	2%
Repair network	89.5	108.9	(18%)
Membership	338.9	352.9	(4%)
HVAC	21.2	25.5	(16%)
Other	12.8	13.3	(4%)
Total revenue	372.9	391.7	(5%)
Adjusted operating costs	(291.9)	(325.7)	(10%)
Adjusted operating profit	81.0	66.0	23%
Adjusted operating margin	22%	17%	+5ppts



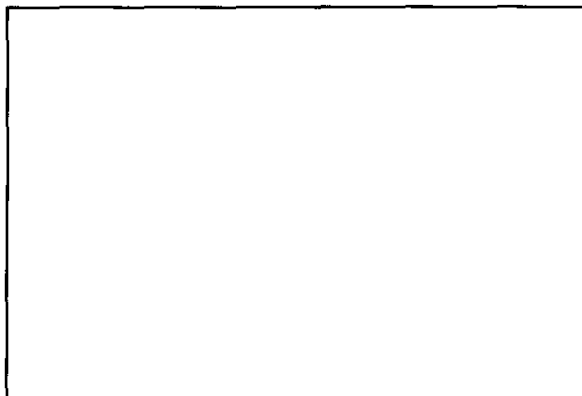
Operating review

UK continued

On a statutory basis the UK segment recorded an exceptional charge of £15.0m in relation to an impairment of LeakBot reflecting slower uptake of the device from consumers and insurance partners. The financial impact of the exceptional charge is not shown in the adjusted results but is discussed in further detail in the financial review.

Operational performance

UK customers were 1.8m (FY19: 2.0m) with retention at 78% (FY19: 79%). The UK business continued its focus on serving its core customer base, for whom the HomeServe proposition of a reliable and easy way to deal with home repairs and emergencies remains as valued as ever. There continues to be less emphasis on attracting and retaining marginal customers through deep discounts. This approach, combined with lower customer acquisition year on year, drove a 15% rise in income per customer with the retention rate remaining broadly in line with the prior year.



Customer satisfaction remains high with an "Excellent" rating of 4.4 from 39k reviews on Trustpilot (FY19: 4.3) and a Reevo score of 96% (FY19: 96%).

The UK network of 800 directly employed engineers and 446 subcontractors completed 0.9m jobs (FY19: 1.2m). The directly employed network fulfilled in excess of 90% of water jobs and over half of gas jobs, with the remainder completed by the subcontract network.

The UK business continues to pursue initiatives to transform both the customer experience and operational efficiency. HomeServe Now, HomeServe's app-based technology to swiftly identify a customer's need and connect them directly with an available engineer in close proximity to their home, was trialled in further UK regions during the second half. HomeServe Now has the potential to transform customer

service and reduce costs to serve. By combining the App with a subscription-based consumer offer there is also an opportunity to access homeowners that typically would not consider the core Membership product but who frequently buy other products and services on mobile devices and via a subscription.

HomeServe has worked with the majority of UK water utilities for a number of years. In February 2020 the UK signed an agreement with one of the remaining providers, Portsmouth Water, which will see HomeServe initially offering plumbing and drainage products to Portsmouth's customer base of c.0.3m households. The first customer policies have since been written, a pleasing result coming as it does against the backdrop of the COVID-19 restrictions

The UK continued to integrate its HVAC business. Help-Link, the HVAC business acquired in 2017, was one of only a few national HVAC providers in the UK and HomeServe UK is now assessing larger regional providers in order to build a pipeline of buy-and-build opportunities as it looks to follow the wider Group's HVAC growth strategy. Acquiring well run, profitable HVAC companies with great local brands where there is existing high policy density also creates the opportunity to compete for the installations that the UK's 1.8m customers require each year but that they currently source elsewhere.

The Financial Conduct Authority's (FCA) market study into pricing practices across the General Insurance industry was due to be published in the first quarter of 2020 but has been delayed amidst the COVID-19 outbreak. HomeServe's focus remains, as ever, on providing products which customers value and use and providing a transparent and fair pricing journey. The business continues to provide all the information necessary to ensure customers are able to make well-informed decisions when choosing their products. HomeServe continues to monitor the situation and remains well positioned to address any recommendations the study makes to the insurance industry.

The FCA has also published additional guidance for insurance providers throughout the coronavirus pandemic stating their expectation that firms display increased awareness and respond flexibly to changing consumer circumstances. HomeServe is keeping its customers regularly informed via its many channels, including letters and telephony as well as online and continues to closely monitor the FCA's updates.

North America

4.4m

Customers +9% from 4.0m

\$102

Income per customer +6% from \$96

7.5m

Policies +12% from 6.7m

Financial performance

Total revenue increased by 25% to \$546.1m and total adjusted operating profit increased by 23% to \$108.6m as North America continued its strong growth trajectory. North America alone accounts for over a third of the Group's revenue and total adjusted operating profit.

Net policy income increased by 14% to over \$450m as income per customer passed the \$100 mark, increasing by 6% to \$102 and as the business added 0.4m customers.

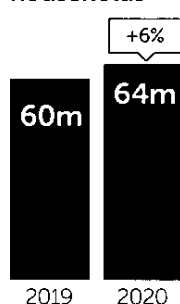
Repair network revenue includes jobs performed by HomeServe's growing number of directly employed engineers, including those employed by acquired HVAC companies completing jobs for Membership customers, and almost doubled to \$39.5m (FY19: \$20.5m).

HVAC revenue tripled to \$53.3m (FY19: \$17.6m) due to a full year run rate of prior year HVAC acquisitions such as Cropp Metcalfe and an additional three acquisitions in the period for total consideration of \$20.7m, the largest of which was Crawford Services, HomeServe's first acquisition in Texas.

Acquisitions in the year contributed just \$15.9m of revenue and \$1.6m profit, with North American progress still very much driven by organic growth.

The North America margin remained stable at 20% as total adjusted operating profit exceeded \$100m for the first time, growing by 23% to \$108.6m. HomeServe remains on track to achieve its previously stated medium to long-term profit milestone for its North America business of \$230m.

Affinity partner households



USD million	2020	2019	Change
Revenue			
Net policy income	451.2	396.8	14%
Repair network	39.5	20.5	93%
Membership	490.7	417.3	18%
HVAC	53.3	17.6	203%
Other	2.1	1.3	58%
Total revenue	546.1	436.2	25%
Adjusted operating costs	(437.5)	(348.1)	26%
Adjusted operating profit	108.6	88.1	23%
Adjusted operating margin	20%	20%	—

£million	2020	2019	Change
Revenue			
Net policy income	354.9	303.3	17%
Repair network	30.6	15.7	195%
Membership	385.5	319.0	21%
HVAC	42.4	13.4	217%
Other	1.6	1.0	60%
Total revenue	429.5	333.4	29%
Adjusted operating costs	(344.1)	(265.8)	29%
Adjusted operating profit	85.4	67.6	26%
Adjusted operating margin	20%	20%	—

Operating review

North America continued

Operational performance

Total customers increased by 9% to 4.4m driven principally by organic growth and the continued success of HomeServe's utility-branded marketing campaigns which added 1.2m (FY19: 1.2m) gross new customers in the year. Supporting this customer growth is a core base of renewing customers and the retention rate remained strong at 83% (FY19: 83%). Customers are also opting for more cover, with policies increasing by 12% to 7.5m and helping drive income per customer over \$100 to \$102 (FY19: \$96).

HomeServe continues to deliver high levels of service when its customers need it most and in FY20 its network of 205 engineers and c.5k contractors completed 0.5m jobs (FY19: 195 engineers and c.5k contractors, 0.5m jobs). The business retains its A+ Better Business Bureau rating and in March 2020 was once again honoured at the annual Stevie Awards for Sales and Customer Service with 30 awards including a gold award for "Innovation in Customer Service". Recent investments in technology and innovation such as Smart IVR have proven invaluable in recent months, delivering additional scale and flexibility to serve customers throughout the challenges presented by COVID-19 in March and April.

In March 2020 HomeServe was once again honoured at the annual Stevie Awards for Sales and Customer Service with 30 awards including a gold award for "Innovation in Customer Service"

Providing great customer service is one of the key reasons utilities trust HomeServe to provide products to their customer base and HomeServe now works with over 950 utility and municipal partners (FY19: c.700) providing access to 64m North American households under a utility brand (FY19: 60m). Although the situation with COVID-19 inevitably paused some utility partner discussions, HomeServe continues to sign new partnerships and in April 2020 signed Alabama Power for an additional 1.3m households and the Municipality of Ottawa in Canada with 0.4m households.

Both are great indications of the continuing appeal of HomeServe's services to utilities, even during the COVID-19 pandemic.

In December 2019 HomeServe acquired ServLine for total consideration of \$24.1m. ServLine works with over 150 rural water utilities across 18 states through an exclusive partnership with the National Rural Water Association and 28 State Rural Water Associations. ServLine offers a unique leak adjustment product to participating utilities protecting both homeowner and utility from the cost of water lost from leaking pipes. The leak product increases the range of solutions HomeServe can offer homeowners and utilities, providing further opportunities to increase the customer and partner count as HomeServe looks to achieve its ambitions in North America.

Two further acquisitions in the year were made in the Whole Home Warranty space. American Home Guardian and Nations were added for total consideration of \$8.0m. Both acquisitions contributed to HomeServe's launch of its TotalHome Warranty product, a cover-all approach to the main systems and appliances in the home. The launch has used TV and online channels to attract consumers who are typically younger and more digitally minded than HomeServe's current customer demographic. As a much broader product the TotalHome offer attracts a higher price point and over time should provide a further opportunity to increase income per customer.

The HVAC market in North America is highly fragmented with tens of thousands of providers in a market estimated to be worth \$29bn annually. HomeServe is building a pipeline of high quality HVAC businesses that can generate synergies with Membership. HomeServe's 4.4m customer base generates hundreds of thousands of installation requests every year which would usually go to competitors but which marketing efforts can now direct to HomeServe's own HVAC businesses. By acquiring HVAC businesses in areas of high policy density HomeServe can also use the acquired workforces to complete repairs for the Membership business and over time reduce its underwriting cost and contribute to future margin growth.

France

1.1m

Customers +5% from 1.1m

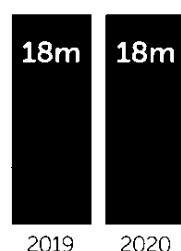
€108

Income per customer -1% from €109m

2.4m

Policies +2% from 2.3m

Affinity partner households



Euro million	2020	2019	Change
Revenue			
Net policy income	120.1	115.6	4%
Repair network	0.4	0.5	(12%)
Membership	120.5	116.1	4%
HVAC	7.8	1.7	355%
Other	0.1	0.9	(90%)
Total revenue	128.4	118.7	8%
Adjusted operating costs	(89.4)	(80.9)	11%
Adjusted operating profit	39.0	37.8	3%
Adjusted operating margin	30%	32%	(2ppts)

£million	2020	2019	Change
Revenue			
Net policy income	104.5	101.9	3%
Repair network	0.4	0.4	(13%)
Membership	104.9	102.3	3%
HVAC	6.8	1.5	348%
Other	0.1	0.8	(89%)
Total revenue	111.8	104.6	7%
Adjusted operating costs	(78.0)	(71.3)	9%
Adjusted operating profit	33.8	33.3	1%
Adjusted operating margin	30%	32%	(2ppts)

Financial performance

2020 was another successful year for France, returning its highest ever revenue of €128.4m (FY19: €118.7m) and highest profit of €39.0m (FY19: €37.8m) whilst continuing to invest in Membership and HVAC growth initiatives.

Net policy income increased by 4% to €120.1m driven principally by a higher customer count and HVAC revenue rose significantly to €7.8m (FY19: €1.7m) due to the full year run rate of prior year HVAC acquisitions and five additional acquisitions made during the year.

At 30% the French margin was lower than the prior year, as expected, due to increased marketing to grow the customer book but it remains the highest in the Group and is sustainable in the long-term.

Operational performance

A 5% increase in customers to 1.1m was the strongest percentage growth in France for five years and total gross new customers of 0.2m was the highest ever. The business prospered from a number of new relationships with non-utility partners, e.g. JeChange and Papernest, as an active business development team added six new energy retailers in total and continues to grow the prospects pipeline.

HomeServe continued to generate new customers from its existing water partnerships and Veolia, Suez and Saur all added more customers this year than last but new partners generated c.20% of new customer joins. Veolia is offering HomeServe's products in its call centres via its Homefriend initiative, Suez has agreed to further direct mail campaigns and all 15 Saur regions are now transferring prospect sales calls to HomeServe.

The retention rate was strong at 89% (FY19: 89%) and remains a good indication of the high levels of customer satisfaction in French Membership. The business was awarded Elu Service Client de l'Année for the fourth year in succession and internally measured complaints statistics are close to all time lows.

In HVAC the buy-and-build strategy added a further five small acquisitions for total combined consideration of c.€3.3m. The HVAC team is focussed on successful integration of these businesses ensuring strong links are made to enable the best cross-selling opportunities for installations and Membership cover.

In November HomeServe France was awarded status as a Great Place to Work, and in March 2020 ranked 23rd amongst companies with 250 to 1,000 employees within Best Place To Work 2020.

Operating review

Spain

1.0m

Customers -13% from 1.1m

€61

Income per customer +8% from €57

1.1m

Policies -16% from 1.3m

83%

Retention rate +3ppts from 80%

Financial performance

Total revenue in Spain increased by 11% to €176.6m as new contracts drove an 18% increase in repair revenue in the Claims business, acquisitions contributed to a 143% uplift in HVAC revenue and Membership revenue was more resilient than anticipated as initiatives were implemented to preserve its back book of customers, and income per customer rose by 8% to €61.

Adjusted operating costs grew by 10% to €153.5m as a result of costs directly attributable to the increased repair revenue and growing HVAC business line. The adjusted operating margin rose slightly to 13% principally reflecting the benefit of additional scale in the Claims business.

Operational performance

The Membership business had a good year and total customers were 1.0m (FY19: 1.1m) as HomeServe continued to explore opportunities for new partnerships to replace the relationship with Endesa, which ended in May 2018. In the absence of a major new partner the customer book will continue to decline but the relationship with Endesa remains positive with an extended billing agreement and continued re-activation marketing. The retention rate increased to 83% (FY19: 80%) and income per customer increased to €61 (FY19: €57) reflecting the increasing maturity of the book.

The customer number was also boosted by the addition of a small policy book of c.30k from Sareteknika, an HVAC provider, and a further 15k acquired with various smaller HVAC acquisitions in the year.

The Claims business had its most successful year ever, completing 1.0m jobs (FY19: 0.8m), a year on year increase of 17% despite a marked reduction in March due to the effects of COVID-19. The increase in job volumes was driven by successful business development activities and a number of new partnerships including Bansabadell Seguros Generales. The business is also working closely with Habitissimo to buy leads which can be deployed to its existing network of 266 franchisees and c.2.2k subcontractors (FY19: 190 franchisees and c.1.9k subcontractors).

HomeServe Spain made seven HVAC acquisitions in the year including three policy books and four business combinations (Somgas, Linacal, Tecno Arasat and Sate) for a total cash outflow of €9.4m. The business continues to build a pipeline of further potential acquisitions and in line with the wider Group's HVAC strategy, all acquisitions to date are being integrated in order to generate maximum synergies with the Membership business - cross-selling Membership cover following an installation and marketing installations of new HVAC appliances to the Membership customer base.

Euro million	2020	2019	Change
Revenue			
Net policy income	56.3	62.7	(10%)
Repair network	108.2	92.0	18%
Membership	164.5	154.7	6%
HVAC	12.1	5.0	143%
Total revenue	176.6	159.7	11%
Adjusted operating costs	(153.5)	(139.9)	10%
Adjusted operating profit	23.1	19.8	16%
Adjusted operating margin	13%	12%	+1ppt

Emillion	2020	2019	Change
Revenue			
Net policy income	49.2	55.3	(11%)
Repair network	94.4	81.1	16%
Membership	143.6	136.4	5%
HVAC	10.5	4.4	138%
Total revenue	154.1	140.8	9%
Adjusted operating costs	(134.0)	(123.1)	9%
Adjusted operating profit	20.1	17.7	13%
Adjusted operating margin	13%	13%	—

Home Experts

39,000

Checktrade trades +9% from 36,000

24,000

Habitissimo trades -13% from 28,000

3,000

Paying eLocal trades

Financial performance

Total Home Experts revenue increased by 78% to £71.8m principally as a result of a 30% increase at Checktrade to £38.5m and the addition of £22.1m revenue from eLocal, which was acquired in November 2019. Habitissimo revenue grew 4% to £11.1m despite a 4k reduction in trades as the business increased its focus on serving and growing its larger trades.

The total adjusted operating loss of £13.9m increased by 86% due to increased marketing activity at Checktrade, structural changes at Habitissimo and the cost of an organic test of Home Experts in France. eLocal generated an adjusted operating profit for the four months post-acquisition of \$2.5m, below the anticipated \$5m, due to increased headcount to strengthen the team for its future growth plans and the effects of COVID-19 that significantly reduced demand in March.

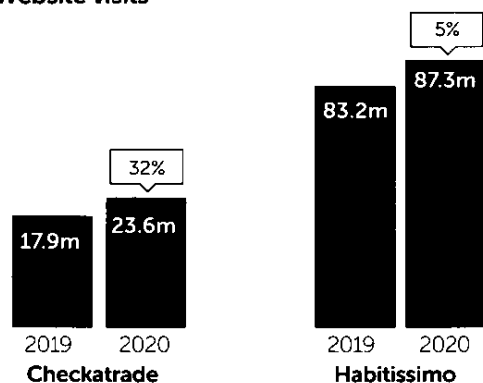
On a statutory basis an exceptional gain of £3.6m was recorded in relation to the acquisition of the remaining 30% of Habitissimo. This is discussed in further detail in the Financial review.

Checktrade

Checktrade is making good progress to grow both sides of its platform as it strives to achieve its milestone targets of 150k to 200k trades, average revenue per trade of £1,200 to £1,300 and an adjusted operating margin of 25% to 35%.

Visitors to Checktrade's newly refreshed website grew by 32% and now benefit from additional functionality when selecting and contacting trades such as 'shortlist' and 'call back'. Average revenue per trade grew by 10% to £1,023, total trades grew by 9% to 39k and Checktrade was on track for slightly higher growth until the impacts of COVID-19 caused numbers to fall in March.

Website visits¹



¹ Excludes eLocal, acquired part way through the year in November 2019

£million	2020	2019	Change
Revenue			
Checktrade	38.5	29.8	30%
Habitissimo	11.1	10.6	4%
France	0.1	—	—
eLocal	22.1	—	—
Total revenue	71.8	40.4	78%
Adjusted operating costs	(85.7)	(47.8)	79%
Adjusted operating loss	(13.9)	(7.4)	86%

Operating review

Home Experts continued

Matching increased consumer web visits with high trades growth has been a key focus of the business throughout FY20. Gross trade acquisition of 16k was very successful but a higher level of cancellations amongst members within their first year slowed overall progress. Key to retaining these trades is ensuring a fair distribution of work generated by the increased visitor traffic amongst all trades. Initiatives to achieve this, such as inserting new trades higher up the search results pages for a period of time, had begun to take effect and showed encouraging improvements early in the final quarter.

Directory leaflets also play a crucial role in driving brand awareness amongst consumers and generating work that provides value for trades' membership. Calls to leaflet members in FY20 were up 42% year on year reflecting the roll out to new geographies and an increased frequency of leaflet 'drops' in some areas.

Back office changes to improve the platform and its supporting systems to ensure the business scales effectively and efficiently to meet its growth plans continue apace with projects to automate the vetting process and implement a new customer management system and billing engine well underway.

The impact of COVID-19 has been particularly pronounced in Checkatrade but proactive decisions taken to support trades and offer options to pause or alter Memberships have been well received and should serve to underline the value of the platform to its trades in the future.

Habitissimo

In June 2019 HomeServe acquired the remaining 30% of Habitissimo and appointed Sarah Harmon, previously Country Manager of LinkedIn Spain and Portugal, as its new CEO. Sarah spent the second half of the year building a new commercial plan for the business and determining its future priorities.

Learnings from other successful lead generation businesses, including eLocal, show the benefit of offering a solution for national accounts and larger trades companies. These companies want a greater volume of leads and have the support functions to enable them to maximise lead conversion. HomeServe Spain's Claims operation is a good example of such a business and Habitissimo has been working closely with them to develop its offer

By focussing its efforts on increasing the volume and quality of leads it generates, Habitissimo intends to grow its lead generation business whilst also launching the directory

model under the HomeServe brand in Spain later in 2020. To provide additional bandwidth and oversight, the decision has also been taken to exit Argentina, Columbia and Peru, Habitissimo's three smallest LATAM territories.

eLocal

On 26 November 2019 HomeServe acquired 79% of eLocal for £98.8m. eLocal is a fast growing Home Experts business based in Philadelphia, in North America, with annualised revenue of c.\$90m, a network of 3k paying trades and a directory of c.8.5m free listings. The key management team has been retained with Bruce Aronow, one of the founders, continuing as CEO.

eLocal's business model most closely resembles lead generation with a number of unique aspects that can be applied in HomeServe's other Home Experts businesses. As well as using its own SEO and SEM (Search Engine Optimisation and paid Search Engine Marketing), eLocal utilises a wide network of affiliates to generate leads principally via calls from consumers. These are then monetised by matching to a network of trades, many of whom are larger national accounts buying hundreds or even thousands of leads a year. The focus on calls and larger national accounts means that today eLocal generates fewer web visits and has fewer paying trades than both Checkatrade and Habitissimo so all business are already working closely together to share best practice and initiatives to drive future growth. eLocal is also looking at ways to work more closely with the North America Membership business.

Financial performance for FY20 was lower than originally anticipated with additional costs incurred to integrate the business into a Plc environment and to introduce headcount to prepare the business for its future growth plans. The business was also impacted by COVID-19 with significantly reduced demand in March. HomeServe now expects eLocal to add in excess of \$10m of adjusted operating profit in FY21 vs. previous guidance of \$16m.

France

During the year Home Experts in France launched a test with free basic website listings, upselling trades to enriched, fuller profiles. Following the successful test, in May 2020 HomeServe entered into a new structure to scale the business. The management team will now own 80% with HomeServe taking a 20% stake with an option to increase this in the future, once the business has achieved national scale.

New Markets

£m/million	2020	2019	Change
Adjusted operating loss	(4.7)	(2.4)	91%

In January 2020 HomeServe announced that its Japanese joint venture with Mitsubishi Corporation had signed its first utility partnership, with Chugoku Electric a utility in Western Japan serving 2.9m households. Responses to initial marketing campaigns launched in January were very encouraging with take-up rates approaching those seen in North America. Marketing was paused as a result of COVID-19 but the business continues to run tests and is building a pipeline of other utility partnerships as it attempts to grow its access to Japan's 53m households.

The £4.7m loss also includes the cost of the international business development team, which continues to prospect and hold discussions in a number of other countries.

HomeServe saw limited opportunities for Membership growth in Italy, so in line with its discipline of focusing resources on the Group's largest opportunities, the decision was taken to exit the Italian operations. HomeServe sold its 49% share in its Italian associate and 0.2m customers to its partner and existing 51% shareholder Edison Energia for cash consideration of £8.4m, giving rise to a £3.8m exceptional gain.

Financial review

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

Group statutory results

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

£milion	2020	2019
Total revenue	1,132.3	1,003.6
Operating profit	158.6	152.6
Net finance costs	(20.7)	(13.1)
Adjusted profit before tax	181.0	161.7
Amortisation of acquisition intangibles	(35.5)	(26.8)
Exceptional items	(7.6)	4.6
Statutory profit before tax	137.9	139.5
Tax	(32.1)	(31.2)
Profit for the year	105.8	108.3
Attributable to:		
Equity holders of the parent	106.0	108.5
Non-controlling interests	(0.2)	(0.2)
	105.8	108.3

Profit before tax

A strong operational performance driven by profit growth in all Membership businesses resulted in a 12% growth in adjusted profit before tax to £181.0m.

Statutory profit before tax is reported after the amortisation of acquisition intangibles and exceptional items. On this basis profit before tax was £137.9m (FY19: £139.5m) as underlying profit growth was offset by net exceptional charges of £7.6m recorded principally in the UK in relation to the Group's LeakBot asset.

Net finance costs

Net finance costs rose to £20.7m (FY19: £13.1m) due to the unwinding of interest on deferred consideration in relation to previous M&A activity, the impact of IFRS 16 and the higher average net debt balance year on year combined with a higher weighted interest rate as a result of US Private Placements agreed in the prior year.

Exceptional items

The Group incurred the following exceptional items in the year, amounting to a net charge of £7.6m (FY19: net gain of £4.6m).

Consumers and insurance partners have been slower than expected to adopt smart leak detection technology. Following the Group's annual budgeting process and subsequent updates in light of COVID-19 HomeServe completed an impairment review of the Group's LeakBot assets, concluding that the net assets of the business are impaired, and incurring £15.0m of exceptional charges. This conclusion has been reached based on a number of factors affecting expected future cash flows including commercial traction, access to investment and the pace of technology change. Of the £15.0m, £12.9m related to the impairment of development assets for the LeakBot device, £1.4m of inventory and a £0.7m restructuring provision.

An exceptional gain of £3.8m was recorded in relation to the sale of HomeServe's Italian associate, Assistenza Casa, principally representing the excess of the total £8.4m sale proceeds over the carrying value of the investment in the Group's balance sheet.

A further exceptional gain of £3.6m was recorded in relation to the purchase of the remaining 30% stake in Habitissimo, principally representing the lower consideration paid of £7.7m compared to the carrying value of the option liability in the Group's balance sheet.

The prior year exceptional item of £4.6m included an exceptional cost of £5.5m, mostly related to redundancies and other associated charges incurred in respect of changes to the organisational design of the UK business. Offsetting this charge was an exceptional gain of £10.1m relating to a fair value movement on contingent consideration payable to the previous owners of Help-Link upon hitting certain stretch target volumes of boiler installations. At 31 March 2019 the Group determined that the likelihood of hitting these targets was remote and that the fair value of the outstanding liabilities was £nil.

Amortisation of acquisition intangibles

Acquisition amortisation relates to customer and other contracts held by businesses, which were acquired by HomeServe as part of business combinations and asset purchases.

The amortisation of acquisition intangibles of £35.5m (FY19: £26.8m) increased principally due to charges relating to prior year M&A activity.

Amortisation of acquisition intangibles is excluded from the adjusted performance measures reported by the Group in each specific reporting period, ensuring that these measures only reflect the revenue attributable to, and costs incurred by, the Group in managing and operating its businesses and assets at that time in each reporting period. A reconciliation between adjusted and statutory amounts is included with the Glossary at the end of this announcement along with further commentary on HomeServe's use of adjusted items as Alternative Performance Measures.

Tax strategy

The Group has continued to operate within the tax strategy approved by the Board in May 2019. The tax strategy is subject to annual review and reflects HomeServe's status as a plc, and the regulated nature of its business which requires strong governance and consideration of reputation as well as compliance with local laws, regulations and guidance. The UK elements of the tax strategy document are publicly available on the HomeServe plc website as required by UK legislation.

The Group tax strategy covers how HomeServe:

- i) applies tax governance on an ongoing basis and maintains strong internal controls in order to substantially reduce tax risk;
- ii) will not engage in artificial transactions the sole purpose of which is to reduce tax;
- iii) holds a strategic aim to retain its low tax risk rating as determined by the UK Tax Authority's Business Risk Review process; and
- iv) works with all tax authorities in an open, honest and transparent manner.

Tax charge and effective tax rate

The Group's tax charge in the financial year was £32.1m (FY19: £31.2m), representing an effective tax rate of 23% (FY19: 22%). The corporate income tax rates in the overseas countries in which the Group operates continue to be higher than the UK corporate income tax rate of 19% (FY19: 19%), which results in a Group effective rate higher than the headline UK rate. As the proportion of the Group's profits earned overseas continues to grow, the effective tax rate is expected to increase slightly.

Other comprehensive income

At 31 March 2020 the fair value of the Group's investment held in a manufacturer of smart thermostat connected home technology has been reassessed. In light of the current market conditions and uncertainty associated with the COVID-19 pandemic the Group has reduced the fair

value of its investment by £3.7m. This movement, net of a £0.8m reduction in the associated deferred tax liability, has been recorded in the investment revaluation reserve.

Cash flow and financing

HomeServe's business model continues to be highly cash generative with free cash flow in FY20 of £93.4m (FY19: £44.3m).

£million	2020	2019
Adjusted operating profit	201.7	174.8
Exceptional items	(7.6)	4.6
Amortisation of acquisition intangibles	(35.5)	(26.8)
Operating profit	158.6	152.6
Impact of exceptional items	7.6	(4.6)
Depreciation and amortisation	109.1	73.9
Non-cash items	9.2	10.7
Increase in working capital	(44.1)	(30.4)
Cash generated by operations	240.4	202.2
Net interest and associated borrowing costs	(18.5)	(9.9)
Repayment of lease principal	(12.4)	(0.6)
Taxation	(30.2)	(31.7)
Capital expenditure - ordinary	(79.0)	(66.9)
Capital expenditure - acquisitions of policy books	(6.9)	(48.8)
Free cash flow	93.4	44.3
Acquisition of subsidiaries	(140.6)	(37.5)
Acquisition of non-controlling interest	(7.7)	—
Acquisition of investments	—	(5.4)
Proceeds on disposal of equity accounted investments	8.4	—
Equity dividends paid	(73.5)	(65.0)
Purchase of own shares	(3.0)	—
Issue of shares (net of associated issue costs)	0.1	2.2
Net movement in cash and bank borrowings	(122.9)	(61.4)
Impact of foreign exchange and other non-cash items	(11.5)	(5.4)
Net debt acquired	(11.8)	(0.1)
IFRS 16 lease liabilities acquired	(3.4)	—
Lease liabilities – adoption of IFRS 16	(52.6)	—
Movement in IFRS 16 lease liabilities	(2.1)	—
Opening net debt	(304.7)	(237.8)
Closing net debt	(509.0)	(304.7)

Financial review

Continued

Working capital

Working capital absorption was £44.1m in FY20 (FY19: £30.4m) slightly higher than guided, reflecting the expected growth in all businesses, in particular in North America and the adverse timing of underwriting payments in the UK.

Capital expenditure

Total capital expenditure of £85.9m (FY19: £115.7m) included £6.9m (FY19: £48.8m) for the acquisition of five small policy books across France, Spain and North America. Bolt-on policy books continue to be a proven, comparatively low-risk approach for acquiring additional customers. In FY19 the cash outflow of £48.8m related principally to the second tranche of the Dominion Products and Services policy book.

Ordinary capital expenditure of £79.0m included £21.0m (FY19: £15.0m) of payments made to partners who undertake marketing activity to acquire customers on HomeServe's behalf with the largest increase in France due to higher sales completed by Veolia which helped drive France's highest ever new customers acquired.

The balance of £58.0m (FY19: £51.9m) principally comprised technology investments in customer and network management systems in Membership and platform developments at Checktrade. With major capex programmes such as the UK Customer Relationship Management system coming to an end, capital expenditure is expected to fall.

Acquisitions

M&A activity continued to support HomeServe's growth ambitions, incurring a cash outflow in the year of £140.6m. There were three material acquisitions in the year, all in North America;

- 79% of eLocal Holdings LLC for a net cash outflow of £93.4m, bringing Home Experts to North America
- a group of assets constituting a business under IFRS 3 from Sunbelt Group LLC, "ServLine", for an outflow of £13.7m, expanding the product and partnership opportunities of the North American Membership business
- Crawford Services Inc., a HVAC service provider, enhancing the scale and scope of HomeServe's HVAC capabilities, for a net outflow of £10.5m.

The acquisition of 79% of eLocal also provided HomeServe with options to acquire the remaining 21% by FY26. Further detail on the structure and operation of the different 'put' and 'call' options is disclosed in note 16. At 31 March 2020 the carrying value of obligations under these put options was £31.3m.

HomeServe USA Holdings Corp. holds a call option which, if exercised, requires certain non-controlling shareholders to sell their remaining interests. This option is only exercisable if in scope shareholders leave the company and are not considered 'Good Leavers' as defined in the option agreements. HomeServe currently assesses the likelihood that any in scope shareholder would trigger this clause to be remote and as such has determined that the fair value of this call option is £nil.

An additional 14 businesses were acquired for an outflow of £16.6m as the Group continued the pursuit of its HVAC buy-and-build strategy in North America, France and Spain and Membership added two whole home warranty providers, enabling the North America business to gain experience and a foothold in this growing market to support the launch of its own TotalHome Warranty product.

In addition to the total net cash outflow on the acquisitions above of £134.2m, deferred and contingent consideration was paid relating to previous business combinations of £6.4m (FY19: £10.4m).

HomeServe continues to identify and assess M&A opportunities in all of its businesses, including further HVAC investment as it expands its buy-and-build initiative. Policy book M&A remains a low risk approach to accelerating growth and HomeServe continues to attempt to unlock opportunities in all countries, particularly North America.

Purchase of own shares

During the year 249,975 (FY19: nil) shares were repurchased at a cost of £3.0m (FY19: £nil) to fulfil awards made under share incentive schemes. No shares were transferred to individuals to satisfy awards (FY19: nil).

Earnings per share

Basic earnings per share for the year decreased by 3% to 31.7p from 32.7p due principally to the impact of the exceptional items discussed above. On an adjusted basis, earnings per share increased 10% from 37.5p to 41.3p. The weighted average number of shares increased from 331.7m to 334.2m principally due to new shares issued in fulfilment of share schemes that vested in the year.

Dividends

Given the Group's good performance, the Board's confidence in HomeServe's continued short-term resilience and its future prospects, the Board is proposing to increase the final dividend to 17.8p per share (FY19: 16.2p) to be paid on 3 August 2020 to shareholders on the register on 3 July 2020.

Together with the interim dividend declared in November 2019 of 5.8p (November 2018: 5.2p), this represents a 10% increase in the total ordinary dividend payment for the year

of 23.6p (FY19: 21.4p), which is 1.75x covered by the FY20 adjusted earnings per share (FY19: 1.75x).

Financing

In FY20 the Group continued to target net debt in the range of 1.0-2.0x adjusted EBITDA, measured at 31 March each year. With adjusted EBITDA of £275.3m and net debt of £509.0m, including c.£60m of lease liabilities at 31 March 2020 following the adoption of IFRS 16 in this financial year, the Group was inside its target range at 1.8x. Due to the ordinary seasonality of the business, net debt is expected to increase at the next half year before declining, absent any future M&A.

Excluding lease liabilities, gross debt was c.£580m and cash was c.£131m, giving the Group over £330m of headroom against total available facilities of £780m. Included within the facilities is a new £50m revolving credit facility added on 30 March 2020. With this headroom and with only £36m of the facilities due within the next 12 months the Group is well positioned to address the challenges posed by COVID-19.

Net interest and borrowing costs paid increased to £18.5m (FY19: £9.9m) principally due to the higher net debt figure year on year and a full year's fixed interest charge on the c.£175m US Private Placement agreed in October 2018.

At a Company only level HomeServe has replaced intercompany receivables with an injection of capital into its intermediary holding companies to better match their funding requirements. There is no impact from this to the consolidated Group financing position.

Foreign exchange impact

The impact of changes in the Euro and USD exchange rates between FY19 and FY20 resulted in a £9.1m increase in the reported revenue and a £1.3m increase in adjusted operating profit of the international businesses as summarised in the table below, largely as a result of a beneficial movement in the US dollar. The impact of foreign exchange on statutory operating profit was in line with this.

With an increasing proportion of HomeServe's profits generated overseas, the potential translation impact of foreign exchange movements on reported profits may have

a larger impact. A ten cent movement in the FY20 average USD rate of 1.27 and the Euro rate of 1.15 would have had approximately a £7.0m and £5.0m impact respectively on full year adjusted operating profit.

The impact of future movements in the Yen in FY21 following HomeServe's new joint venture in Japan is not expected to be material.

IFRS 16

HomeServe has adopted IFRS 16 using the modified retrospective 'Asset = Liability' approach with a date of initial application of 1 April 2019. Comparative information provided in this announcement has not been restated. The effect of IFRS 16 on the income statement is to remove operating lease charges previously shown within 'operating costs', replacing them with depreciation and interest charges that now result from the capitalisation of 'Right of Use Assets' and the recording of 'Lease Liabilities' in the consolidated balance sheet (see note 2 Accounting Policies).

There is no material impact on FY20 PBTA as a result of adopting IFRS 16. The effect on adjusted operating profit at a Group level is a reduction of £0.2m with the segmental breakdown shown in the Glossary, at the end of this announcement (see note 2).

Customers

HomeServe Membership's growth strategy aims for the business to provide its products to more homeowners. It does this by successfully marketing its products to end consumers and by delivering high standards of service. HomeServe's customer KPI measures its success in achieving this aim.

Under IFRS 15 a customer is defined as 'a party that has contracted with an entity to obtain goods or services'. In the Membership businesses where the Group acts as an intermediary selling contracts and insurance policies to end consumers, the 'IFRS 15 customer' is considered to be the underwriter with which the Group has contracted to sell policies. The Glossary at the end of this announcement provides further detail on customer definitions and the associated effect this has on revenue recognition.

Foreign exchange impact

		Average exchange rate			Effect on (£m)	
		2020	2019	Change	Revenue	Adj. operating profit
					2020	2020
North America	\$	1.27	1.31	(3%)	12.1	2.2
France	€	1.15	1.13	1%	(1.4)	(0.7)
Spain	€	1.15	1.13	1%	(1.5)	(0.2)
Home Experts ¹	€	1.15	1.13	1%	(0.1)	–
Total International					9.1	1.3

¹ Home Experts is reported in GBP due to the different currencies used by the operating businesses within the segment. This table shows the impact of foreign exchange movements in the Euro for the results of Habissimo

Section 172(1) statement

This statement aligns to the Section 172(1) statement requirements contained in Section 414CZA of the Companies Act 2006 ('the Act'). It focuses on how the Directors have had regard during the year to the matters set out in Section 172(1) (a) to (f) of the Act when performing their duties by incorporating information from other areas of the Annual Report to avoid unnecessary duplication.

In the performance of its duty to promote the success of the Company, the Board has regard to a number of matters, including considering the views of shareholders and the Company's other key stakeholders to ensure it fully understands the potential impacts of the decisions it makes for our stakeholders, the environment and the communities in which we operate.

HomeServe's key stakeholders and the way in which we interact and engage with them are shown on page 18. Whilst these relationships are generally managed on a day-to-day basis by the teams and Boards of our local businesses, certain key decisions affecting our overall strategy or impacting our principal risks will be escalated for discussion at Executive and Plc Board Level. Key matters discussed in the year and their impact on, amongst others, employees, customers and shareholders such as our COVID-19 response and the acquisition of eLocal are detailed on page 59.

The governance and processes that the Company operates to ensure that relevant matters are considered by the Board are set out in the Governance report.

The table below identifies where, in the Annual Report, information on the issues, factors and stakeholders the Board has considered in respect of Section 172(1).

The Board has had regard to the following matters:	More information:	Page
Long-term results – the likely consequences of any decision in the long-term	Strategic report	
	Chairman's statement	4
	Chief Executive's review	6
	Market overview	10
	Business model	12
	Strategy	14
	KPIs	16
	Principal risk and uncertainties	26
	Viability statement	47
	Governance	
Our workforce – the interests of our people	Board leadership and company purpose	57
	Strategic report	
	Business model	12
	Resources, relationships and responsibilities	18
	Governance	
	Board leadership and company purpose	57
Our business relationships – the importance of developing the Group's business relationships with suppliers, customers and others	Nomination Committee report	70
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	Strategic report	
	Market overview	10
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The community and our environment – the impact of the Group's operations on the community and the environment	Governance	
	Board leadership and company purpose	57
Our reputation – our desire to maintain our reputation for high standards of business conduct	Strategic report	
	Resources, relationships and responsibilities	18
	Strategic report	
	Chairman's statement	4
Our shareholders – the need to act fairly as between members of the Company	Chief Executive's review	6
	Resources, relationships and responsibilities	18
	Strategic report	
	Chairman's statement	4
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	Chairman's overview	52
	Board leadership and company purpose	57
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Viability statement

In accordance with provision 31 of the UK Corporate Governance Code July 2018, the Directors have assessed the viability of the Group over a three year period to 31 March 2023. The Directors believe that a three year forward looking period is appropriate as it is aligned to the timeframe that management focus upon, the performance period in respect of the long-term incentive scheme for senior management, and it is the period of assessment for recoverable values of cash generating units.

The Group has a formalised process of budgeting, reporting and review along with procedures to forecast its profitability, capital position, funding requirements and cash flows. These plans provide information to the Directors on a regular and timely basis and are used to ensure the adequacy of resources available for the Group to meet its business objectives, both on a short-term and strategic basis. The plans for the period commencing on 1 April 2020 were initially reviewed by the Executive Committee in February 2020 and subsequently approved by the Board in March 2020 prior to the potential impact of COVID-19 being fully assessed.

As a result of the COVID-19 pandemic all businesses have subsequently modelled scenarios with varying levels of severity; considering different timelines for emerging from lockdowns and the resultant impacts on customer, employee and supplier mobility and how this impacts profits and cash flows. All businesses have also considered potential upside factors such as increased demand as situations ease. These scenarios have also been reviewed by members of the Executive Committee and were approved by the Plc Board in April 2020.

HomeServe's rapid response to dealing with the crisis provides confidence in its ability to meet a variety of trading and operational challenges. Around 6,000 office-based staff were mobilised to work from home ahead of government imposed lockdowns and front line engineers have continued to deliver high levels of service whilst completing emergency repairs safely for customers. Key to maintaining a good level of service in the UK has been the ability to keep the supply chain open safely and effectively in order to provide directly employed engineers with appropriate protective equipment as well as the parts and materials necessary to complete repairs. A Group COVID-19 taskforce was assembled with representatives from all areas of the business, meeting regularly to discuss emerging issues, review MI (e.g. cancellation attempts, claims logged, completed jobs, absence rates) and enact action plans.

The situation has been more difficult for the trades providing non-emergency services in HomeServe's Home Experts businesses Checktrade, Habitissimo and eLocal but in

Checktrade, for example, the support provided to trades in order to keep them on the platform will ensure Checktrade and its members will emerge from the lockdown in the strongest position possible. In the year ended 31 March 2020 revenue from Home Experts represented less than 10% of total Group revenue and the businesses incurred total losses of £13.9m as they are still in an investment phase. The impact of reduced Home Experts performance on the overall short-term results of the Group is therefore less significant whilst over the longer term the expectation is that these businesses return to growth once investment plans are restarted as the crisis subsides and lockdowns are eased.

Having demonstrated its ability to provide a continued level of service, the response of HomeServe's customers further supports confidence that the business model is well equipped to deal with increased challenge. Group retention remained stable at 82% through April and early May 2020, cancellation attempts remained in line with historic trends and customer satisfaction remained strong.

In making this year's Viability statement, the Board also carried out a robust assessment of the principal risks facing the Group. The Principal risk and uncertainties set out the principal strategic, operational and financial risks which could threaten HomeServe's business model, future performance and growth plans and its liquidity or solvency. HomeServe has a robust risk management framework (see page 26) which addresses its risk appetite and risk policy and continues to review both emerging risks and opportunities. In the financial year ended 31 March 2020 HomeServe formally documented Sustainability as a new risk. All major risks are scored based on their potential impact and likelihood and are reviewed regularly by the Audit & Risk Committee.

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

- the impact of the loss of a key partnership in the Membership business
- the impact of reduced customer focus across the Group
- market disruption from a new competitor, with particular reference to North America, the Group's largest current opportunity
- the impact of new or amended regulation and legislation
- the impact of losing a key underwriting relationship in the Membership business
- the impact of an extended lockdown period on consumer demand and trade subscriptions at Checktrade
- the impact of operational challenges resulting from COVID-19 including increased usage of subcontractors over directly employed engineers.

Viability statement Continued

One new scenario has been introduced to Membership as a result of COVID-19. The root cause of other reasonably plausible impacts are the same under COVID-19 as under HomeServe's normal viability assessments. However, in recognition of the significance of the COVID-19 impact the range of impacts these assessments consider have been modelled with increased severity over both the short and long-term.

The new scenario in relation to requiring additional use of subcontractors in the UK would result in additional expense incurred in the short-term as the business carries the largely fixed payroll costs of an under-utilised engineer network. However the flexibility of being able to use subcontractors ensures that customer claims continue to be serviced - a key driver for strong retention rates which is one of Membership's key business drivers.

With specific reference to the Home Experts businesses, scenarios have been modelled to reflect trades not buying leads (at eLocal and Habitissimo) due to reduced consumer demand/the inability of trades to carry out work due to social distancing requirements, or trades being offered discounted fees (at Checkatrade) for an extended period of time together with a slower future growth in the number of trades on the Checkatrade platform.

Stress tests indicated that no single scenario would impact the viability of the Group over the next three years. As might be expected the impact increases if different risks were to materialise simultaneously or continue for longer. However, given the nature and relative diversification of the business in terms of both geography and the Group's global business lines, it is considered unlikely that such scenarios in sufficient number would occur. In such scenarios HomeServe would also be able to take decisions to protect the profitability of the business over a three year period by, for example;

- choosing to move where it allocates its resources
- choosing to reduce its investment of resources considered more discretionary in nature e.g. scaling back marketing investment to offset any reductions in income.
- choosing to reduce the size and scale of back office functions to match any reductions in income.

In addition to measures enacted in response to COVID-19 detailed above, the Directors' assessment has been made with reference to a number of factors which both individually and collectively can help mitigate or reduce any threat to its ongoing viability. These include, for example;

- the geographical spread of HomeServe's operations
- a large and diverse portfolio of commercial partnerships
- high customer retention
- a strong financial position with over £330m of headroom in its debt facilities at 31 March 2020
- historic and ongoing compliance with all banking covenants
- a small, but increasing, contribution from other business lines with Home Experts and HVAC each growing revenues this financial year.

HomeServe's business model has demonstrated resilience during previous times of economic downturn e.g. throughout the financial crisis of 2008 and 2009 when retention rates remained stable across the Group. In particular, in Spain, where the financial crisis was particularly pronounced, the business was also able to successfully grow its customer count. More recently, Spain has demonstrated the resilience of the model following the loss of a major partner; the retention rate on the back book has increased from 80% to 83% in FY20, and thanks to efficient cost control and the diversification provided by the HVAC and Claims businesses, both revenue and profits grew in FY20.

The business is geographically spread across the UK, Continental Europe, North America and now with an early stage presence in Japan. In each established territory, the business has long-term contractual relationships with utility businesses providing access to 111m households under Utility Partner brands. Retention rates are high across all established businesses, resulting in stable and recurring cash flows from a large, diverse base of 8.3m customers.

Considering the Group's current position, the principal risks and the Board's assessment of the Group's future, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over a period of at least three years to 31 March 2023.

Going concern

The Group's business activities, together with the factors likely to affect its future development, including the potential impact of COVID-19, on its performance and position are set out in the Strategic report. The Directors have reviewed the Group's budget, forecast and cash flows for FY21 and beyond, and concluded that they are in line with their expectations with regards to the Group's strategy and future growth plans.

COVID-19

COVID-19 is having a deep and pronounced effect on the world economy and the repercussions for many aspects of society including, but not limited to, future economic growth, government policy and changing consumer attitudes and behaviour are likely to be felt for some time. The Directors have assessed additional stress test scenarios which model the potential impact of COVID-19 across the Group's different businesses and have also considered possible wider macro implications. There is a high degree of uncertainty for many businesses but HomeServe's swift response to the crisis means it is well placed to face the ongoing challenges the crisis presents.

The business responded quickly and effectively to be able to continue operating and respond to customers' home emergencies throughout the height of the lockdowns in March and April 2020. Trading metrics remained stable over this period with, for example, Group retention remaining at 82%, cancellation trends in line with historic trends and strong customer satisfaction scores. Having demonstrated its ability to continue to provide a good level of service, the resilience of the Group's business model during times of previous economic crisis provides confidence that customers will continue to retain their cover and use the service. The Group's healthy funding position with £330m of headroom on existing debt facilities and ongoing covenant compliance provide a further level of confidence for the future. Further detail on HomeServe's response to COVID-19 and its potential impacts on the business can be found in the Chief Executive's review and in the Viability statement.

Having also reviewed the Group's position in respect of other material uncertainties, including Brexit, which is reviewed in more detail within the Principal risk and uncertainties on page 26, the Directors have concluded that there are no items that would affect going concern or that should be separately disclosed. The Directors have concluded that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.

David Bower

Chief Financial Officer
19 May 2020

Non-financial information statement

Continued

The Group seeks to comply with the Non-financial Reporting requirements as detailed in the Companies Act 2006. The below table, and information it refers to, is intended to help stakeholders understand our position on key non-financial matters. Copies of policies referred to in the table can be accessed here: homeserveplc.com/about-us/corporate-governance/policies

Requirement	Our policies	Where you can find out more
Anti-bribery and anti-corruption	Financial Crimes and Sanctions Whistleblowing	Resources, relationships and responsibilities page 23.
Employees	Code of Business Conduct	Resources, relationships and responsibilities page 23.
Environment	HomeServe does not currently have a Group wide policy on the environment. Individual businesses engage in different activities for the benefit of their local environments.	Resources, relationships and responsibilities page 25.
Human rights	HomeServe does not currently have a human rights policy but all businesses are expected to comply with key policies regarding e.g. employment rights and equal opportunities.	Resources, relationships and responsibilities page 23.
Social activities	HomeServe does not have a Group wide policy for Social Matters. Our individual businesses engage in different activities and support charitable initiatives for the benefit of their local communities – more detail on these can be found in the Resources, relationships and responsibilities report on page 24	
Description of the principal risks and impact of business activity	N/A	Principal risk and uncertainties pages 26 to 31.
Description of the business model	N/A	Business model pages 12 and 13.
Non-financial KPIs	N/A	KPIs pages 16 and 17.

Strategic report 2020

For and on behalf of the Board

Richard Harpin

Founder and Chief Executive
19 May 2020

Putting our customers first

Safeguarding the elderly

Keeping the elderly safe is crucial, and all our tradespeople are taking strict precautions when visiting the homes of the most vulnerable.

A 93-year-old customer from London praised the considerate steps taken by Kevin from Harrow, Wembley and Uxbridge-based Sirius AV to fix her TV aerial. Not only did he carry out all communication by telephone from his car to adhere to social distancing, he was praised highly for being "polite and hardworking." The customer couldn't have praised him highly enough for his considerate approach to social distancing and even gave a tip because of his professional service.

Checkatrade.com

Chairman's overview

JM Barry Gibson

Dear Shareholder

I am pleased to present this year's Corporate governance report. As a Board, we continue to believe that good corporate governance underpins good business performance. We are accountable to our shareholders for ensuring that governance processes are in place and are effective and we are fully committed to meeting the required standards of corporate governance. The application of the new UK Corporate Governance Code has provided an opportunity for us to review how our governance framework operates and whilst there are always opportunities to learn and develop, I was pleased that no significant changes were needed to our existing practices.

Purpose and Board focus

As I explained in my introduction to the Strategic report, our purpose is to make home repairs and improvements easy, and I believe that clarity of purpose makes it easier for the Board to operate and make decisions.

During the year the Board focused on promoting a disciplined approach to investing for growth, guided by our purpose and our ambition to be able to do every job, in every home. As presented at our Investor Day in June 2019, we believe that the potential for highest returns is from investing in North America and in Home Experts. Acquiring new partners is the key to accelerating growth in North America and the Board had the benefit during the year of visiting the US to review and challenge the team's plans.

On Home Experts, I am pleased to welcome eLocal to the Group. The opportunity to enter the Home Experts market in our largest territory was supported wholeheartedly by the Board and we will continue to keep close to developments as the business settles into the Group.

Stakeholders

The new reporting requirements in respect of stakeholders led us to review how we consider the views of, and engage with, our stakeholders. We considered our activity in respect of each of the key stakeholders and where, as the business develops and grows, future activity should be focused.

Shareholder engagement

All resolutions were passed at the 2019 AGM but there was 31% opposition to the Directors' remuneration report due to concerns around payments to two Directors who left us in 2018. We reviewed our remuneration policy as a result of the feedback received and consulted with our major shareholders. As a result of that consultation process, we have updated the policy on termination payments. Our remuneration policy will be subject to a vote at the 2020 AGM and further information on the updated policy can be found on pages 85 to 92.

Leadership and board effectiveness

As a Board, we need to ensure that we have the right people and leadership to deliver our strategy and plans. Talent is an ongoing challenge in a growing business and the Board, through the People Committee, has encouraged Management to ensure that we have the right resource to support our stretching plans for growth. We are making good progress in identifying new talent and in developing our internal talent.

I am proud of how the business has reacted to the COVID-19 crisis. The way in which the leadership team and the workforce rose to the multiple challenges presented by the crisis epitomised our three key cultural behaviours of courage, persistence and integrity.

During the year, a questionnaire based review of the Board and its committees was facilitated by Lintstock Limited. Further detail on the review is provided on page 68. Based on this review and my experience as Chairman, I am satisfied that the Board and its Committees are performing efficiently and that there is an appropriate balance of skills, experience, knowledge and independence to enable the Board to discharge its duties effectively.

Board changes

Stella David reached the end of her third term of appointment in November 2019. Having consulted with shareholders, we have appointed her for one final term so that she can continue to lead the development of the People Committee. I am delighted that we have been able to retain Stella. As she is no longer considered to be independent, she was replaced as Senior Independent Director by Katrina Cliffe.

Future outlook

The COVID-19 pandemic has created great uncertainty for businesses across the world and there will no doubt be difficult times ahead for everyone. Our appreciation of our homes has never been greater which means our purpose of making home repairs and improvements easy has never been more relevant. I feel sure that continued discipline and focus at Board level will help us thrive despite the challenging environment.

JM Barry Gibson

Chairman

19 May 2020

Compliance and other statements

Compliance with the UK Corporate Governance Code

The principles set out in the UK Corporate Governance Code ('the Code') emphasise the value of good corporate governance to the long-term sustainable success of listed companies. These principles, and the supporting provisions cover five broad themes and the Board is responsible for ensuring that the Company has appropriate frameworks in place to comply with the requirements of the Code.

The Board believes that throughout FY20, the Company has applied the principles and complied with the relevant provisions of the Code save that our Chairman has been in post for longer than nine years and we are continuing to work to align the pension contributions for Executive Directors to those available to the workforce. Explanations of these two points are provided on pages 61 and 83 respectively.

The Code is available at <http://www.frc.org.uk>

Application of UK Corporate Governance Code Principles

The Code has placed increased emphasis on "apply and explain" with regard to the Principles of the Code. Our explanations about how we have applied the main principles of the Code can be found as follows:

Board leadership and company purpose	
Principle A	
A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.	Strategic report pages 2 to 51 Governance pages 52 to 110 Directors' remuneration report pages 82 to 105
Principle B	
The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.	Strategic report pages 2 to 51 Board leadership and company purpose pages 57 to 60 Division of responsibilities pages 61 to 64 Directors' remuneration report pages 82 to 105
Principle C	
The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.	Resources, relationships and responsibilities pages 19 to 25 Principal risks and uncertainties pages 26 to 31 Section 172(1) Statement page 46 Audit, risk and internal control pages 73 to 75 Audit & Risk Committee report pages 76 to 81
Principle D	
In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.	Resources, relationships and responsibilities pages 19 to 25 Section 172(1) statement page 46 Shareholder relations page 60
Principle E	
The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.	Resources, relationships and responsibilities pages 19 to 25 Section 172(1) statement page 46 Board leadership and company purpose pages 57 to 60 Directors' remuneration report pages 82 to 105

Division of responsibilities

Principle F

The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

Board leadership and company purpose pages 57 to 60

Division of responsibilities pages 61 to 64

Principle G

The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

Division of responsibilities pages 61 to 64

Board biographies pages 65 to 67

Principle H

Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

Board leadership and company purpose pages 57 to 60

Division of responsibilities pages 61 to 64

Audit & Risk Committee report pages 76 to 81

Principle I

The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Resources, relationships and responsibilities pages 19 to 25

Board leadership and company purpose pages 57 to 60

Division of responsibilities pages 61 to 64

Audit, risk and internal control pages 73 to 75

Audit & Risk Committee report pages 76 to 81

Directors' remuneration report pages 82 to 105

Composition, succession and evaluation

Principle J

Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

Nomination Committee report pages 70 to 71

Composition, succession and evaluation page 68

Principle K

The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

Board biographies pages 65 to 67

Principle L

Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Nomination Committee report pages 70 to 71

Composition, succession and evaluation pages 68 to 69

Audit, risk and internal control

Principle M

The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

Audit, risk and internal control pages 73 to 75

Audit & Risk Committee report pages 76 to 81

Compliance and other statements

Continued

Audit, risk and internal control

Principle N

The board should present a fair, balanced and understandable assessment of the company's position and prospects.

Strategic report pages 2 to 51
Audit, risk and internal control pages 73 to 75
Audit & Risk Committee report pages 76 to 81
Financial statements pages 122 to 191

Principle O

The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Principal risks and uncertainties pages 26 to 31
Viability statement pages 47 to 49
Audit, risk and internal control pages 73 to 75
Audit & Risk Committee report pages 76 to 81

Remuneration

Principle P

Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values, and be clearly linked to the successful delivery of the company's long-term strategy.

Strategic report pages 2 to 51
Board leadership and company purpose page 57 to 60
Directors' remuneration report pages 82 to 105

Principle Q

A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

Directors' remuneration report pages 82 to 105

Principle R

Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

Directors' remuneration report pages 82 to 105

Viability and going concern

Statements in respect of viability and going concern are set out on pages 47 to 49.

Robust assessment of emerging and principal risks

The Board confirms that they have carried out a robust assessment of emerging and principal risks facing the Group (including those which would threaten the business model, future performance, solvency or liquidity), its appetite with respect to those risks and the systems required to mitigate and manage them. Details on the review process are set out on pages 73 to 75. Further details on the emerging and principal risks and uncertainties can be found on pages 26 to 31.

Annual review of systems of risk management and internal control

The Board monitored the Group's systems of risk management and internal control and carried out a review of their effectiveness. The Board concluded that overall, these systems were effective. Details on the review process are set out on pages 73 to 75.

Fair, balanced and understandable

The Directors consider that, taken as a whole, this Annual Report is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position, performance, business model and strategy. Details on the process for arriving at this conclusion are set out on page 79.

Section 172(1)

The Directors have performed their duty under Section 172(1) of the Companies Act 2006. The statement on how this duty has been fulfilled is contained in the Strategic report on page 46.

Board leadership and company purpose

The Board

The Board is responsible for the effective leadership and long-term success of the Group and our purpose is at the heart of Board discussions. As a Board we regularly discuss and review:

- Our business model and its sources of value that give us advantage
- Our business performance and our progress towards our strategic goals
- Our customers and how we can ensure that they are at the heart of everything we do
- Our people and how we can develop and support them to provide the service our customers expect
- Our stakeholders and how we engage with them
- Our governance and controls.

HomeServe's business model is based on five key sources of value – partnerships, marketing expertise, customer service, local networks and financials. The Board discusses all of these, and their potential impacts, on a regular basis but the focus changes depending on business priorities and where the biggest potential lies. Home Experts continues to be a key focus and ongoing investment in that business has been made possible by continued growth in Membership.

There has been continued focus on the plan to acquire HVAC businesses in each of our territories with the Board regularly reviewing the performance of acquired businesses along with the development of the strategy.

We plan to continue to grow our business internationally and the Board has regularly discussed potential opportunities in new territories. Regular updates have been received on the development of our joint venture in Japan, where the first utility partnership was signed in January 2020.

As well as looking for new opportunities, the Board also reviews existing activity and considers whether there is anything that the business should stop doing. During the year this led to the sale of our stake in our Italian associate.

Our purpose, values and culture

Our purpose is to make home repairs and improvements easy and this is underpinned by our values. The culture set by the Board is intended to deliver performance and growth whilst maintaining high standards of business conduct. Central to our focus on culture has been the development of the HomeServe Way (see page 20) which sets out the essential behaviours, skills and knowledge needed to be effective at HomeServe, based on the fundamentals of courage, persistence and integrity.

The People Committee of the Board (see page 72) reviews the results of the regular employee engagement surveys and uses these reviews as the principal means of assessing the culture across the Group. Questionnaires are completed by employees on an anonymous basis and the process is facilitated by an external provider.

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

Board leadership and company purpose

Continued

Board Activity in FY20

Strategy, operations and finance

- Received regular updates from the Executives on trading performance
- Approved the annual budget and business plan
- Reviewed and approved the Group's FY19 and half year FY20 results (including dividends)
- Approved the FY19 Annual Report (including a fair, balanced and understandable assessment) and 2019 AGM Notice
- Reviewed the Group's debt, capital and funding arrangements
- Received updates on business plans and strategic initiatives (Checkatrade, Whole Home Warranty, HomeServe Now, On Demand to Policy)
- Reviewed the Group's brand strategy
- Considered a number of international development opportunities
- Received regular updates on M&A activity
- Received updates on technology related developments
- Discussed and input into the content for the Investor Day held in June 2019
- Considered and approved a proposal to accelerate the purchase of management's shares in Habitissimo
- Approved the acquisition of a majority holding in eLocal
- Discussed and evaluated the HVAC strategy
- Discussed environmental strategy and approved a number of actions

Leadership and people

- Reviewed the succession plan for the Board and Executive team
- Considered organisational design and approved changes required to deliver the Group's strategy
- Discussed the talent pipeline and in particular, how diversity could be improved
- Received regular updates from the Chair of the People Committee
- Received updates on social responsibility activity in each of the businesses

Internal control and risk management

- Reviewed the principal risks and uncertainties
- Reviewed and confirmed the Group's viability statement and going concern status
- Reviewed and validated the effectiveness of the Group's systems of internal controls and risk management
- Received updates on health and safety
- Considered and approved the Group's tax strategy

Governance and legal

- Received updates on corporate governance developments, in particular, compliance with the new UK Corporate Governance Code
- Reviewed the matters reserved for the Board and the terms of reference of its committees to ensure compliance with the new Code
- Received reports on engagement with investors and other stakeholders
- Conducted an externally facilitated evaluation of the Board's effectiveness and discussed the outcome
- Received regular reports from the Chair of the Audit & Risk Committee

Our stakeholders

Engagement with our main stakeholders is summarised on page 18 of the Strategic report.

Our business environment presents us with opportunities and challenges and it is vital for the Board to respond to these while continuing to grow our business and maintain our reputation. The Board seeks to understand the views of our stakeholders and engage with many of them to ensure that stakeholder interests can be considered during our discussions and decision making.

The importance and influence of stakeholder groups differs depending on the matter being discussed. It is possible for stakeholder interests to conflict and when this happens, the Board uses its judgement to reach a final decision.

The Board is advised of stakeholder views in a number of different ways:

- The monthly Business Review
- Business updates
- Presentations on strategic developments
- Updates on international development
- People Committee updates
- Succession plans
- Employee engagement survey results
- Annual General Meeting
- Corporate governance and regulatory development updates
- Presentations from external advisers and internal experts.

Stella David has been appointed as the designated workforce engagement Director and this activity is covered in the People Committee report on page 72.

Detailed below are some examples of matters discussed during the year and how the Board considered our stakeholder groups.

Matter discussed	Decisions	How the Board or Committee had regard to stakeholders	Stakeholder groups considered
COVID-19 response	Decision taken not to furlough staff and to launch services to support health workers in the UK during the crisis	Consideration was given to: <ul style="list-style-type: none"> • how we could maintain our services to customers (particularly vulnerable customers) during the crisis • how we could keep our workforce safe • how our core skills could be leveraged to support key workers • the impact of these decisions on our ability to deliver our strategic plans and returns for shareholders. 	Shareholders, employees, customers, community, government
Acquisition of eLocal	Decision taken to acquire a majority shareholding in eLocal	Consideration was given to: <ul style="list-style-type: none"> • extending the range of services available to our customers • use of our capital and the impact on returns for shareholders • the cultural fit of the business with HomeServe and how it would be managed. 	Shareholders, customers, employees

Board leadership and company purpose

Continued

Relations with shareholders

The Board, on the Company's behalf, recognises the need to maintain an active dialogue with its shareholders. The Chief Executive and Chief Financial Officer meet regularly with institutional investors and analysts to discuss the Company's performance and all shareholders have access to the Chairman and the other Directors, who are available to discuss any questions which they may have in relation to the running of the Company. All major shareholders were given the opportunity to meet with the Chairman during the year but only one chose to do so.

We ensure that all Directors are fully aware of the views of major shareholders. Copies of all analysts' research relating to the Company are circulated to Directors upon publication. The Board receives a monthly Investor Relations report which includes an analysis of the Company's shareholder register as well as any feedback received from shareholders and analysts. Feedback is actively sought following the Interim and Preliminary Results presentations and presented to the Board.

All resolutions were passed at the 2019 AGM but there was 31% opposition to the Directors' remuneration report due to concerns around payments to two Directors who left us in 2018. We reviewed our remuneration policy as a result of the feedback received and consulted with our major shareholders. As a result of that consultation process, we have updated the policy on termination payments. Further details are set out on page 83.

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

Whistleblowing

A whistleblowing policy is in place and allows employees, franchisees and sub-contractors who wish to raise any issues of concern relating to the Group's activities to do so on a confidential basis by contacting an external hotline. The policy is available on our website <http://www.homeserveplc.com/about-us/corporate-governance/policies>

All reports are formally investigated by the Assurance & Risk Director with support from relevant functions within the business. Incidents and their outcomes are reported to the Audit & Risk Committee and the Board. A number of calls were made to the external hotline during the year and management action was taken where appropriate. No issues were raised that required any direct action from the Board.

Division of responsibilities

The Chairman of the Board, Barry Gibson, is responsible for the effectiveness of the Board. He was independent on appointment but has now served as Chairman since 2010. As reported last year, we consulted with shareholders and gained support to appoint Barry for one final term (from April 2019 to April 2022) during which we would start a process to recruit his successor. That process is now underway.

The roles of the Chairman, Chief Executive and Senior Independent Director are clearly defined and written specifications are available on our website: <http://www.homeserveplc.com/about-us/corporate-governance/>

At least half of the Board, excluding the Chairman, are independent Non-Executive Directors; there are five Non-Executive Directors (excluding the Chairman) and three Executive Directors. Four of the Non-Executive Directors are considered to be independent. Stella David is no longer considered to be independent as she has served on the Board for more than nine years. Shareholders were consulted before her appointment was renewed for one final term.

Stella David acted as Senior Independent Director until she reached the end of her third term of appointment in November 2019. Katrina Cliffe replaced Stella as Senior Independent Director.

The Board

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

Matters reserved to the Board include:

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

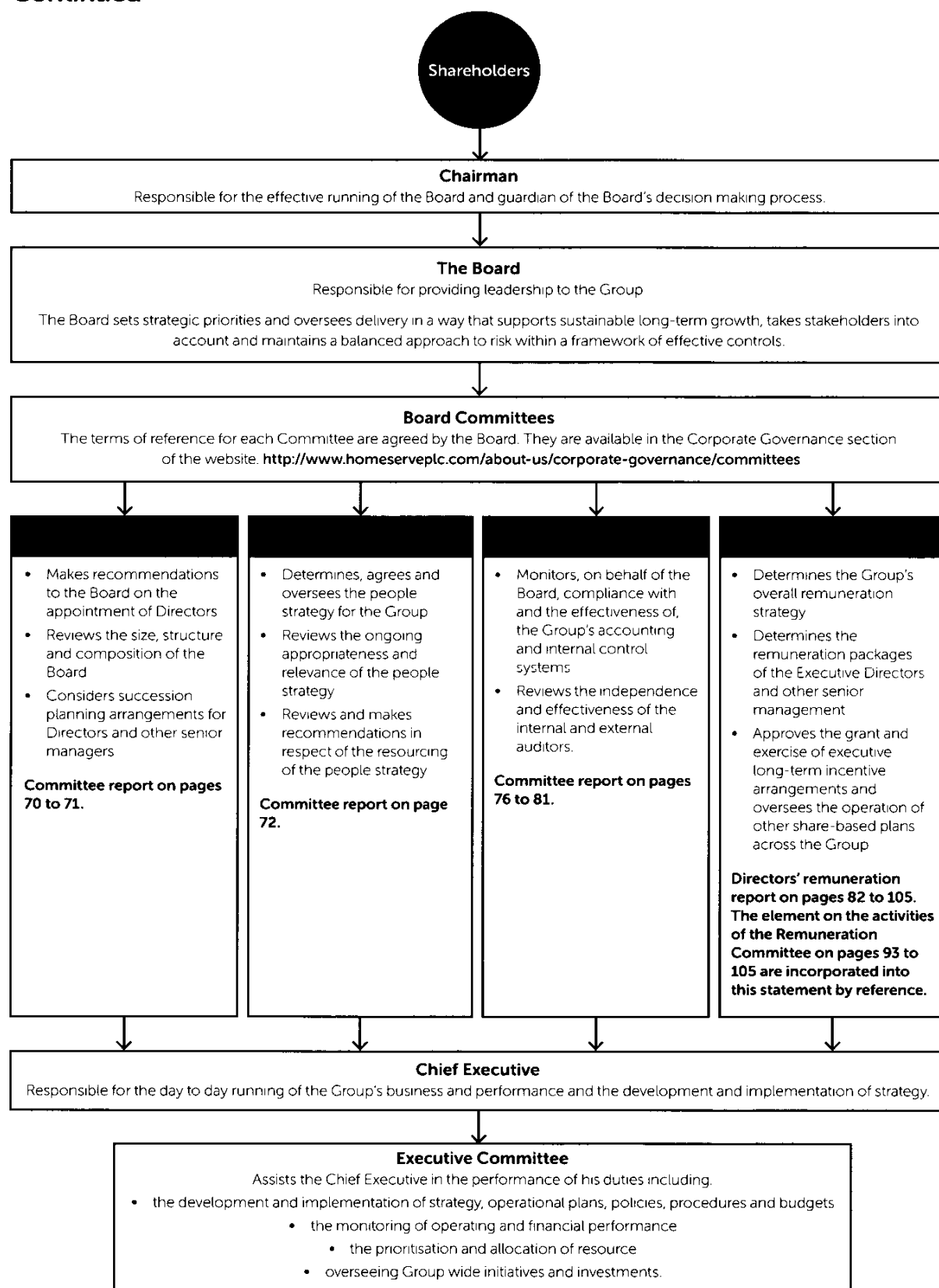
The full schedule is available on our website <http://www.homeserveplc.com/about-us/corporate-governance/our-board>

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

Chairman	Chief Executive Officer	Senior Independent Director
Key responsibilities		
<ul style="list-style-type: none"> • The effective running of the Board • Direction and focus • Guardian of the decision making process • Provide challenge • Ensures the Board receives accurate, timely and clear information • Maintaining relationships with Executive and Non-Executive Directors. 	<ul style="list-style-type: none"> • Management of the Group • Developing and proposing strategy • Implementing Board decisions • Maintaining an active dialogue with the Chairman • Leading shareholder communication. 	<ul style="list-style-type: none"> • Supporting the Chairman on governance issues • Acting as a sounding board for the Chairman and a trusted intermediary for other Directors • Leading the annual review of the Chairman's performance • Leading the process to find a new Chairman.

Division of responsibilities

Continued



Time commitment

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

During the year, Barry Gibson was appointed as Chairman of GVC Holdings plc. He discussed this with the Board during the recruitment process and it was agreed that given Barry's tenure and experience at HomeServe, coupled with the fact that he was in his final term as Chairman, he had sufficient bandwidth to take on another Chairman role.

Executive Directors may serve as a Non-Executive Director on one other board so long as this does not interfere with their time commitment to the Company. If they do, they may retain the fees. Richard Harpin is the founder and Director of Growth Partner LLP which invests in entrepreneurs and nurtures promising businesses. The business is run on a day to day basis by a Managing Partner.

Board and other meetings

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

Regular formal and informal presentations are given in order to inform Directors of issues of importance affecting the Group. Occasionally, meetings of the Board are held at the Company's operating sites other than Walsall, in order to afford the Board, particularly the Non-Executive Directors, the opportunity to meet with local management.

During FY20, the Board held its annual strategy meeting in the US where it was able to meet with the management team as well as spend time with the wider workforce. An additional meeting was also arranged so that the Board could visit Checkatrade's new location in Portsmouth in order to benefit from more detailed insight into that business.

The Chairman and Non-Executive Directors meet at least annually without the Executives. In addition, the Senior Independent Director held a private meeting of the Non-Executive Directors without the Chairman being present to assess his performance. It was concluded that Barry Gibson's performance and contribution were strong and he continues to demonstrate effective leadership and commitment to the business.

Attendance at meetings

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

	Board	Audit & Risk Committee	Remuneration Committee	People Committee
D Bower	9/9			3/3
R Harpin	9/9			3/3
T Rusin	9/9			3/3
K Cliffe	9/9	3/3	5/5	3/3
S David ¹	9/9		4/5	3/3
J M B Gibson	9/9		5/5	3/3
E Fitzmaurice	9/9	3/3	1/1	
O Grémillon	9/9		1/1	
R McMillan	9/9	3/3	5/5	1/1

¹ Stella David was unable to attend one meeting of the Remuneration Committee as she was appearing as a witness in legal proceedings unrelated to the Company.

Nomination Committee meetings are held on an ad hoc basis as required. In FY20, succession was considered by the Board and diversity was considered by the People Committee. As such, the standing committee did not meet during the year. Specific sub-committees are established for new appointments to the Board and a sub-committee was established during the year to progress the search for a new Chairman. The activities of the Nomination Committee and related sub-committees are described on pages 70 to 71.

Division of responsibilities

Continued

Executive Committee

Members

Richard Harpin (Chairman)
David Bower
Deb Dulsky
Mike Fairman
Guillaume Huser
John Kitzie
H Stephen Phillips
Fernando Prieto
Greg Reed
Tom Rusin

Responsibilities

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

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

The Committee has adopted formal terms of reference which are available on our website

<http://www.homeserveplc.com/about-us/corporate-governance/committees>

Short biographies of the members of the Executive Committee who are not on the Board, are set out on pages 66 to 67

Composition, succession and evaluation

Board of Directors and Executive Team

BOARD OF DIRECTORS

JM Barry Gibson (68) Chairman

Appointed to the Board: April 2004

Appointed as Chairman: April 2010

Committee memberships: Nomination (Chair), Remuneration, People

Barry was previously Group Retailing Director at BAA plc, Group Chief Executive of Littlewoods plc and Non-Executive Director of Somerfield plc, National Express plc, William Hill plc, SSP Group Ltd, bwin party digital entertainment plc and Non-Executive Chairman of Harding Brothers Holdings Ltd.

Key areas of prior experience: Retailing, travel, leisure

Principal current external appointments: Chairman of GVC Holdings plc

Richard Harpin (55) Chief Executive

Appointed to the Board: May 2001

Committee memberships: Executive, People

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

Key areas of prior experience: Consumer marketing, management consultancy, entrepreneurship

Principal current external appointments: Founder and Director of Growth Partner LLP

David Bower (48) Chief Financial Officer

Appointed to the Board: February 2017

Committee memberships: Executive, People

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

Key areas of prior experience: Accountancy, audit, investor relations, mergers and acquisitions

Principal current external appointments: None

Tom Rusin (51) Global CEO, Membership

Appointed to the Board: May 2017

Committee memberships: Executive, People

Tom was appointed as Global CEO, HomeServe Membership in April 2018 following nearly seven years as Chief Executive Officer, HomeServe USA. Previously at Affinion Group where he undertook a number of roles culminating in three years as President and Chief Executive Officer of Affinion Group's North American Division. Before joining Affinion, he owned Just for Travel Inc. He was previously a Non-Executive Director of The Ambassador's Group.

Key areas of prior experience: Affinity marketing

Principal current external appointments: None

Katrina Cliffe (53) Senior Independent Director (Independent)

Appointed to the Board: May 2017

Committee memberships: Remuneration (Chair), Audit & Risk, Nomination, People

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

Key areas of prior experience: Financial services, membership services

Principal current external appointments: Non-Executive Director of Cembra Money Bank AG, London and Country Mortgages Limited, Naked Wines plc

Stella David (56) Non-Executive Director (Not Independent)

Appointed to the Board: November 2010

Committee memberships: People (Chair), Remuneration, Nomination

Stella was previously Chief Executive Officer of William Grant & Sons following more than 15 years with Bacardi Ltd where she undertook a number of roles culminating in five years as Global Chief Marketing Officer. She also spent seven years as a Non-Executive Director at Nationwide Building Society.

Key areas of prior experience: Marketing, drinks industry, international

Principal current external appointments: Chairman of C&J Clark Ltd, Non-Executive Director of Bacardi Ltd and Norwegian Cruise Line Holdings

Composition, succession and evaluation

Board of Directors and Executive team continued

BOARD OF DIRECTORS

<p>Edward Fitzmaurice (57) Non-Executive Director (Independent) Appointed to the Board: May 2017 Committee memberships: Audit & Risk, Nomination, Remuneration Edward was previously Chief Executive Officer of Hastings Insurance Group and part of the MBO team of that business in 2009. He served as the Non-Executive Chairman of Hastings Insurance Services Ltd until October 2015 and a Non-Executive Director of Hastings Group Holdings plc until March 2017. Prior to joining Hastings, he spent three years at HomeServe as Chief Executive of HomeServe Warranties. His earlier career was spent at Dixons plc and Anglo American. Key areas of prior experience: Retailing, insurance Principal current external appointments: None</p>	<p>Olivier Grémillon (40) Non-Executive Director (Independent) Appointed to the Board: March 2019 Committee memberships: Remuneration Olivier is currently Vice President, Global Segments, at Booking.com. He was previously the Managing Director for Europe, the Middle East and Africa at Airbnb, having joined them as the Country Manager for France. He started his career in strategy consulting and worked for both Deloitte and McKinsey & Company. Key areas of prior experience: Marketing, international development, product development, strategy, platform businesses Principal current external appointments: Vice President, Global Segments, Booking.com</p>	<p>Ron McMillan (67) Non-Executive Director (Independent) Appointed to the Board: October 2017 Committee memberships: Audit & Risk (Chair), Remuneration, Nomination, People A Chartered Accountant, Ron worked in PwC's assurance business for 38 years and has extensive knowledge and experience in auditing, financial reporting and governance. During his time at PwC, his roles included Global Finance Partner, Chairman of the North of England and Deputy Chairman and Head of Assurance for the Middle East. Key areas of prior experience: Accountancy, audit Principal current external appointments: Senior Independent Director and Chairman of the Audit Committee of N Brown PLC, SCS PLC and B&M European Value Retail SA</p>
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EXECUTIVE TEAM

<p>Anna Maughan (50) Company Secretary Appointed as Secretary: July 2008 Anna started her career at Severn Trent plc and joined South Staffordshire plc as Assistant Company Secretary in 1996. Following the demerger of HomeServe plc and South Staffordshire plc in 2004 she continued as Assistant Company Secretary of HomeServe plc, becoming Company Secretary in 2008. Key areas of prior experience: Company secretarial, pensions Principal current external appointments: Trustee of, and Secretary to, the industry wide Water Companies Pension Scheme</p>	<p>H Stephen Phillips (53) CEO, Global Partnerships Committee memberships: Executive Stephen was appointed as CEO, Global Partnerships in January 2018 having led HomeServe Spain since 2005. He is a licensed insurance broker. Prior to joining HomeServe, he spent 12 years in senior business development, sales and marketing roles in Diversified Business Communications S.A. and E.J. Krause de México, working across the US and Latin America. Key areas of prior experience: Business development, marketing, international Principal current external appointments: Non-Executive Director of Assured Enterprises Inc</p>	<p>Guillaume Huser (53) CEO, HomeServe France Committee memberships: Executive Guillaume was appointed as Chief Executive Officer, HomeServe France in April 2015. Previously at Affinion Group where he undertook a number of roles culminating in four years as President of Affinion Group's International Division. Before joining Affinion in December 2002, he spent 13 years at American Express firstly in finance, sales and business development roles and later in the Corporate Services Division where he was VP Commercial Card, Western Europe. Key areas of prior experience: Financial services, business development, affinity marketing, international Principal current external appointments: None</p>
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Greg Reed (50)
CEO, HomeServe UK**Committee memberships:** Executive

Greg was appointed as Chief Executive Officer, HomeServe UK, in June 2017 after joining as UK Chief Marketing Officer in 2012. Prior to HomeServe, Greg was Head of Credit Cards & Overdrafts at RBS Group and before that, spent 13 years at MBNA/Bank of America where, after leadership roles in finance and marketing, he became President of UK Card Services. Previously, Greg was a board member of both West Cheshire & North Wales Chamber of Commerce and Chester Renaissance.

Key areas of prior experience: Consumer & affinity marketing, finance, banking

Principal current external appointments:

Non-Executive Director of Clarion Housing Group, Trustee of Talent Rise

John Kitzie (66)
CEO, HomeServe North America**Committee memberships:** Executive

John was appointed as Chief Executive Officer, HomeServe North America in April 2018 having served as Chief Operating Officer since October 2012. Prior to joining HomeServe, he served as Executive Vice President of Global Operations for Affinion Group where he was responsible for contact centres, fulfilment, merchandising, supply chain, procurement and telecommunications. Before joining Affinion Group, he served as President of Savemart and Senior Vice President of Vcommerce.

Key areas of prior experience: Retail, merchandise, service delivery, partner management

Principal current external appointments:

None

Fernando Prieto (54)
CEO, HomeServe Spain**Committee memberships:** Executive

Fernando was appointed as Chief Executive Officer, HomeServe Spain in February 2018 having joined the Spanish claims business in 2008, undertaking a number of senior roles including Managing Director. Before joining HomeServe he undertook a number of roles in the insurance sector for CASER and MAPFRE including Chief Actuary, Business Development Director and Chief Marketing Officer.

Key areas of prior experience: Insurance, marketing, business development

Principal current external appointments:

Trustee of Fundación Area XXI

Mike Fairman (53)
CEO, Checkatrade**Committee memberships:** Executive

Mike was appointed as Chief Executive Officer, Checkatrade in October 2018. Before joining HomeServe he was CEO of mobile phone network giffgaff noted for its pioneering online, community powered business model. Prior to giffgaff, Mike undertook a number of roles in O2 including starting and running O2's home broadband business. His early career was focused on marketing in the soft drinks and pet food sectors.

Key areas of prior experience: Marketing, digital transformation, entrepreneurial start-ups

Principal current external appointments:

None

Deb Dulskey (49)
Global CEO, HVAC**Committee memberships:** Executive

Deb was appointed as Global CEO, HVAC in November 2018 following nearly 8 years in leadership positions at HomeServe USA, most recently as Chief Strategy Officer. Prior to joining HomeServe, Deb led the Marketing Solutions division in the Americas of Williams Lea and served in a number of roles in M&A and business development at Affinion Group. She was previously a Non-Executive Director of The Ambassadors Group.

Key areas of prior experience: Business development, M&A, marketing, international

Principal current external appointments:

None

Composition, succession and evaluation Continued

Board composition

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

Short biographies of each of the Directors, including their membership of Committees, are set out on pages 65 to 66.

Board development

New members of the Board receive a tailored induction organised by the Company Secretary which includes visits to the different territories and operations. Where required, training on legal and regulatory responsibilities is also provided.

On an ongoing basis, Directors are encouraged to highlight specific areas where they feel their skills or knowledge would benefit from further development.

Succession

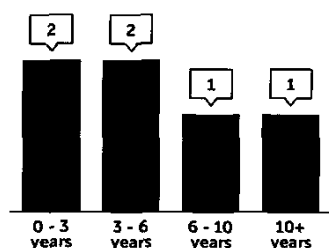
We recognise the importance of ensuring that there is an appropriate pool of talented and capable individuals to fill senior roles and a succession planning process has been established across the Group to facilitate this. The process identifies emergency, short-term and long-term successors for each role and therefore allows any training and development requirements or recruitment issues to be highlighted. Each business and corporate function prepares and maintains succession plans with the support of local and Group People functions and with input from the Group Chief Executive. The Executive Committee regularly discusses the plans and the Board as a whole reviews the high level plan at least annually.

Board evaluation

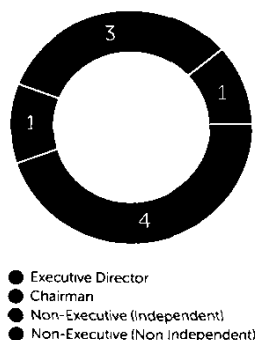
The Board has implemented a formal process for reviewing its own effectiveness, that of its Committees and its individual members. The Board evaluation is facilitated by Lintstock Limited. Lintstock Limited has no other connection with the Company or to individual Directors.

Online questionnaires are completed by all Directors on an annual basis and responses are collated into a report which is discussed at a Board meeting. Every third year, Lintstock interview all of the Directors so that any themes can be developed and feedback investigated in more depth. Interviews were last conducted in FY18. The questionnaires cover topics such as board composition and dynamics, strategic and operational oversight, risk management and internal control, succession planning and human resources as well as priorities for change.

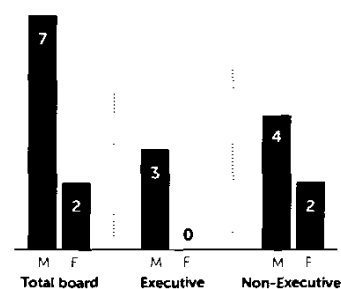
Length of tenure of Chairman and Non-Executive Directors



Board Independence



Board Gender Diversity



In FY20, Directors completed online evaluation questionnaires in January 2020 and Lintstock compiled a formal written report summarising the Directors' views. This report was discussed by the Board in March 2020. Key findings included:

- a high overall level of satisfaction with the functioning of the Board, the competence and capabilities of the Directors and the quality of relationships between members of the Board
- the level of support and challenge provided by the Board to management was viewed positively
- the performance of the Committees was rated positively including the nature of the work undertaken on behalf of the Board.

The main areas identified by the Board for continued focus during FY21 were:

- the process to identify a successor to the Chairman and implement a more formal succession plan for the Non-Executives
- the monitoring and challenge of technological and digital programmes
- ongoing, in-depth monitoring of the competitive environment and the changing needs of customers.

As a result, discussions on customer needs, competition and technology and change have been added to the Board's forward agenda. In addition, the Company Secretary has been asked to develop a formal succession plan for the Non-Executives for discussion during the year.

Composition, succession and evaluation

Nomination Committee report

Members

J M Barry Gibson (Chairman)
Katrina Cliffe
Stella David
Edward Fitzmaurice
Ron McMillan

Responsibilities

The primary responsibilities of the Committee are to:

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

The Committee has adopted formal terms of reference which are available on our website

<http://www.homeserveplc.com/about-us/corporate-governance/committees>

Key issues considered during the year

A specific sub-committee of the Board was appointed during the year to commence a search for a new Chairman. The process is being led by Katrina Cliffe, our Senior Independent Director and the other members of the sub-committee are Ron McMillan, Stella David, Edward Fitzmaurice and Richard Harpin. The relationship between Chairman and Chief Executive Officer is of paramount importance and it was therefore agreed that it was vital to ensure that Richard's views could be considered early in the process.

Three leading consultants were interviewed and Spencer Stuart were selected to assist in the search. Spencer Stuart has undertaken both non-executive and executive searches for the Group with one executive search currently ongoing. It has no other current connection to HomeServe or to individual Directors. Spencer Stuart is a signatory to the Voluntary Code of Conduct for Executive Search Firms.

Spencer Stuart spoke to all members of the Board in order to inform the candidate specification. They then presented a long list of candidates for consideration. The sub-committee met to consider the long list and agree which potential candidates should be approached. Active discussions are underway with a number of individuals and interviews are being arranged. We currently expect to announce a successor for the Chairman during FY21.

Succession planning

Board succession plans are considered by the Board as a whole and the plan for the wider senior management population is considered by the People Committee. Further details are set out on page 68.

Diversity

We are committed to ensuring that our Board is appropriately diverse and that it reflects diversity in its broadest sense. A combination of demographics, skills, experience, race, age, gender, educational and professional background and other relevant personal attributes will ensure our Board is effective. We believe that diversity of experience and personal strengths are as important as diversity of gender and social and ethnic backgrounds.

All relevant factors are taken into consideration when evaluating the skills, knowledge and experience needed to fill each Board vacancy. When recruiting, we require diversity on our long and short lists and in particular, ensure that appropriately qualified women are included on all short lists.

22% of the Board is currently female. We recognise the target for FTSE companies to move towards 33% female representation and will use our best endeavours to increase the number of female Board members over time.

We have made significant improvement in respect of our global senior leadership team which now has 33% female representation but there is more to do at Executive Committee and Board level. We are committed to accelerating our focus on this and have agreed to work towards 33% female representation on a combined basis across our Board, Executive Committee and their direct reports by March 2021, moving us towards the targets set out in the Hampton Alexander report

More information on talent and diversity is provided in the Strategic report on page 21.

JM Barry Gibson

Chairman

19 May 2020

Composition, succession and evaluation

People Committee report

Members

Stella David (Chairman)
Katrina Cliffe
J M Barry Gibson
Ron McMillan (appointed 27 March 2020)
David Bower
Richard Harpin
Tom Rusin

Responsibilities

The primary responsibilities of the Committee are to:

- determine, agree and oversee the people strategy for the Group
- review the ongoing appropriateness and relevance of the people strategy
- review and make recommendations in respect of the resourcing of the people strategy
- review and oversee the employee engagement strategy.

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

Key issues considered during the year

The People Committee met three times during the year. In addition to the members of the Committee, the Group People Director and the Company Secretary attend all Committee meetings.

Discussions during the year have been focused on talent and diversity. The global talent strategy aims to drive the attraction, growth and retention of a deep pool of talented employees with the right capabilities to deliver our growth strategy. We are particularly focused on developing internal talent and are committed to achieving a target of 70% internal hires for senior leadership roles.

Ensuring that our future senior leadership team better reflects the diversity of the markets we serve and the people we employ is a key objective of our global talent strategy. In common with many organisations, we are starting this journey by focusing on a plan to drive gender diversity within our current senior leadership team and in the succession pipeline. We recognise that diversity is much broader than gender but believe that achieving sustainable traction in this critical area of talent will help us develop strategies that can be applied more widely.

The Committee has been closely involved in the UK team's plans to establish an apprenticeship academy. Skilled and experienced tradespeople are central to our purpose and there is currently a shortage of such people in all of our territories. Offering apprenticeships directly and in partnership with our trades and sub-contractors allows us to invest in the future and ensure that we can keep delivering the needs of our customers.

Workforce engagement

I am the nominated Non-Executive Director in respect of workforce engagement and to support me in that role, we have established an International People Forum. The Forum is made up of representatives from each of our businesses and it met for the first time during the year. Our initial discussions focused on the local plans devised in response to the employee engagement survey and provided a useful opportunity to share best practice. The intention is that the Forum will meet twice a year and I fully expect that as the agenda develops it will provide a unique insight into the views and concerns of our workforce across the world.

The Committee also monitors progress with overall employee engagement, and I would like to congratulate our businesses in France and North America for achieving Great Place to Work status.

Stella David

Chairman
19 May 2020

Audit, risk and internal control

Board assessment of risk management and internal control

The Board has overall responsibility for the Group's system of risk management and internal control including the setting of risk appetite. The Audit & Risk Committee has a key role to play in overseeing risk management and internal controls and advising the Board thereon. More detail in respect of the role of the Audit & Risk Committee is provided in the report of that Committee on pages 76 to 81.

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

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

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

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

The relevant Board statements on these matters are set out on pages 47 to 48 and page 79. The principal risks and uncertainties are set out on pages 26 to 31.

System of risk management and control

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

The risk governance model is based on the 'three lines of defence' as follows:

1st line of defence

A risk management framework is in place which includes the agreed risk appetite, policies and procedures. The Group's management operates a formal process for identifying, managing and reporting on the operational and financial risks faced by each of the Group's businesses. Risks are reviewed in detail at local risk committees and, on an overall basis, by the Executive Committee and the Audit & Risk Committee. Support is provided by the 2nd line of defence oversight functions.

2nd line of defence

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

3rd line of defence

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

Audit, risk and internal control

Continued

Risk management cycle

Risk appetite

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

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

Risk framework

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

Risk assessment and risk registers

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

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

Risk oversight

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

Internal control

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

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

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

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

Financial reporting

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

A clearly defined organisation structure is in place with clear lines of accountability and appropriate division of duties. The Group's financial regulations specify authorisation limits for individual managers and for local boards, with all material transactions being approved by the Board.

Consolidated financial results, including a comparison with budgets and forecasts, are reported to the Board on a monthly basis, with variances being identified and understood so that mitigating actions can be implemented, where appropriate. Ahead of the financial results being presented to the Board, monthly business review calls are held, attended by Executives, representatives from the Group finance function and local senior management. These calls provide an opportunity for a detailed review of performance and to identify any issues or trends.

Half year and annual consolidated accounts are prepared and verified by the finance team and reviewed by the Executive Directors. The accounts are then considered by the Audit & Risk Committee which makes a recommendation in respect of their approval to the Board. The Board then reviews and approves the accounts prior to the announcement of the half year and annual results.

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

Viability statement

The approach to the viability statement and the statement itself are set out on pages 47 to 48.

Audit & Risk Committee report

Dear Shareholder

I am pleased to present the Committee's report for the year.

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

Members

Ron McMillan (Chairman)

Katrina Cliffe

Edward Fitzmaurice

All members of the Committee are independent Non-Executive Directors and the Committee as a whole has competence relevant to our sector. I am a chartered accountant and worked in PwC's assurance business for 38 years, with 28 years as an audit partner, and have extensive knowledge and experience in auditing, financial reporting and governance. During my time at PwC, my roles included Global Finance Partner, Chairman of the North of England and Deputy Chairman and Head of Assurance for the Middle East. I also chair the Audit Committees of N Brown PLC, SCS PLC and B&M European Value Retail SA.

All members of the Committee have an understanding of financial reporting, relevant corporate legislation, the functions of internal and external audit and the regulatory and compliance framework of the Group. Katrina Cliffe brings experience in financial services and has served on risk and audit committees elsewhere. Edward Fitzmaurice has extensive experience of retail and insurance having served as Chief Executive Officer of Hastings Insurance Group.

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

Board reporting

I provide an update to the Board after each Committee meeting and the minutes of meetings are circulated to the whole Board.

Committee Effectiveness

The effectiveness of the Committee is reviewed as part of the annual Board review process facilitated by Lintstock. The FY20 review concluded that the Committee was operating effectively and benefited from a high quality cycle of work.

Responsibilities

The primary responsibilities of the Committee are to:

- monitor, on behalf of the Board, compliance with and the effectiveness of, the Group's accounting and internal control systems
- review the independence of the external auditor and agree their terms of engagement and remuneration
- review the scope of and outputs from the external audit
- approve the scope of the work undertaken by and the outputs from the work done by internal audit
- make recommendations to the Board on accounting policies and their application
- review the annual and interim financial statements before they are presented to the Board
- review the Group's overall risk appetite, tolerance and strategy
- monitor, on behalf of the Board, current and emerging risk exposures
- receive reports from compliance functions and review and approve the means by which the Group seeks to comply with its regulatory obligations.

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

Summary of meetings in the year

The Committee usually meets three times in the year and did so in FY20. Details of meeting attendance are set out on page 63. The timing of Committee meetings is arranged to accommodate the release of financial information, the approval of the external and internal audit plans and the review of the outputs of those plans. In addition to scheduled meetings, I met with the CFO and members of his team, the Assurance & Risk Director and the external auditors on a number of occasions to receive updates on activity.

Items discussed	May 2019	November 2019	February 2020
Financial reporting			
Full year results	●		
Interim results		●	
Consideration of new accounting standards (IFRS 9, IFRS 15 and IFRS 16)	●	●	●
Internal audit			
Internal audit plan			●
Internal audit reports	●	●	●
Internal audit effectiveness and independence			●
External audit			
External audit plan			●
External audit reports	●	●	
External audit effectiveness and independence	●		
Risk			
Risk registers	●	●	●
Other matters			
Regulatory compliance activity	●	●	●
IT security		●	
Post investment reviews of acquisitions	●		

Audit & Risk Committee report

Continued

Significant issues related to the financial statements

The Committee oversaw the process used by the Board to assess the going concern and viability of the Group, the stress testing of key trading assumptions and the preparation of the viability statement which is set out on pages 47 to 48.

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

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

The significant issues considered in the year were:

Issue	How it was addressed by the Committee
Revenue recognition As an insurance intermediary, the Company is required to recognise revenue at the point at which a policy goes on risk. Some elements of revenue are deferred to cover future costs and also to provide for policies which may cancel mid term.	The Committee satisfied itself that the accounting policies for revenue are compliant with IFRS 15 and considered whether any changes were needed to take account of COVID-19.
Carrying value of goodwill The total goodwill balance at 31 March 2020 of £510m has been allocated to the relevant cash generating units (CGUs) and tested for impairment by comparing the carrying value of net assets (including allocated goodwill and acquisition intangibles) with the value in use, defined as the present value of future cash flows attributable to the CGUs.	The Committee reviewed the 'headroom' to ensure that the value in use supported the carrying value of the net assets with particular regard to the potential impact of COVID-19 and satisfied itself that no impairment was required.
Business combinations During the year the Group completed a number of acquisitions including a 79% shareholding in eLocal Holdings LLC for £98.8m. The Group also entered into a put and call option agreement to purchase the remaining 21% equity interest over a period of up to 5 years.	The Committee reviewed the Group's accounting for acquisitions and satisfied itself that it was appropriate. Particular focus was given to the valuations of the eLocal intangible assets and put and call options; along with the allocation of the put option payments between amounts recognised at acquisition and amounts recognised as post acquisition employee benefit expenses.
Capitalisation of development costs The Group has incurred significant costs in relation to the development of new IT systems.	The Committee considered the benefits due to be delivered and the costs, noting that the new CRM system in the UK was now in use for front book policies and back book migration had commenced. It satisfied itself that the discounted benefits of the new systems were significantly higher than the carrying value of the asset.
Exceptional items During the year, the Group acquired the final 30% of Habitissimo, disposed of its holding in its Italian associate and took the decision to impair the LeakBot asset.	The Committee considered the assumptions behind each of these judgements and satisfied itself that they were appropriate, and were indeed, exceptional in nature.
COVID-19 impact The COVID-19 pandemic has had an impact in all of HomeServe's territories.	The Committee considered the impact of COVID-19 on the financial sustainability and operational resilience of the business, taking into account the additional stress testing completed as part of the going concern and viability assessments. It satisfied itself that the business is well placed to face the ongoing challenges of the crisis.
Brexit impact All of the HomeServe businesses trade exclusively within their own borders and the Group is not exposed to any cross border transactional currency risk.	The Committee considered the potential impact of the UK's decision to leave the EU and the ongoing implementation delay and concluded that the impact on the underlying performance of the Group will be limited.

Board statements

Going concern

The Committee reviewed whether it was appropriate to adopt the going concern basis for the preparation of the Annual Report and considered a report from management. Consideration was given to the Group's three year forecasts, availability of committed bank facilities, expected headroom under the financial covenants and the impact of the COVID-19 pandemic. The Committee ensured that the assumptions underpinning the forecasts were stress tested and that the factors which impact on risks and uncertainties were properly considered. Additional stress tests had been completed to take account of COVID-19.

Following the Committee's review, it recommended to the Board that it was appropriate to adopt the going concern basis. The going concern statement is set out on page 49.

Viability statement

The Committee reviewed a report from management setting out the basis for the conclusions in the viability statement. The approach to the viability statement and the statement itself are set out on pages 47 and 48.

Fair, balanced and understandable

The Committee considered whether the Annual Report was fair, balanced and understandable and whether it provided the necessary information for shareholders to assess the Group's performance, business model and strategy. The Committee considered management's assessment of items included in the financial statements and the prominence given to them.

Having reviewed the Annual Report and taking into account the verification exercise completed, the Committee and subsequently, the Board were satisfied that taken as a whole, the Annual Report was fair, balanced and understandable and provided the necessary information for shareholders.

Robust assessment of emerging and principal risks

The Committee completed a robust assessment of the emerging and principal risks by reviewing detailed risk registers and considering the mitigating actions being taken

Risk management and internal control

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

The Committee also monitors, on behalf of the Board, the effectiveness of the Company's material accounting and internal control systems. In fulfilling this responsibility for FY20, the Committee considered reports from management and the internal and external auditors.

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

Further details in respect of risk management and internal controls are set out on pages 73 to 75. Details in respect of the principal risks and uncertainties are set out on pages 26 to 31.

Regulation and compliance

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

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

Audit & Risk Committee report

Continued

External auditor

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

Deloitte LLP has been the Group's auditor since 2002 and the lead audit partner rotates every five years. The current lead audit partner, Peter Birch was first appointed for FY20.

Prior to each audit or review, Deloitte presented their plan to the Committee for discussion. The Committee reviewed the reports prepared by Deloitte on key audit findings and any significant deficiencies in the control environment, as well as the recommendations made to improve processes and controls together with management's responses to those recommendations. Deloitte did not highlight any material internal control weaknesses and management has committed to making appropriate changes to controls where these have been highlighted.

The Committee also discussed with Deloitte, the results of the FRC's firm wide review of audit quality for the period from March 2018 to March 2019 and the proposed improvement plans arising from the report. The Committee noted that no firm inspected achieved the quality targets set by the FRC and will monitor progress against the improvement plans.

The Committee reviews the performance of the external auditor annually based on their understanding of the Group, their approach to key areas of judgement and the extent of challenge, the quality of reporting and the efficiency and conduct of the audit. Feedback is also sought from Group finance and local finance directors on the external auditor's performance. We also reviewed the external auditor's transparency report, which is intended to demonstrate the steps it takes to ensure audit quality with reference to the Audit Quality Framework issued by the Professional Oversight Board of the FRC. In addition, I meet with the external auditor outside of formal Committee meetings to ensure that there is an ongoing dialogue.

The Committee is satisfied that the audit continues to be effective and that Deloitte LLP continues to provide constructive and independent challenge to management and consistently demonstrates a realistic and commercial view of the business. On this basis, the Committee concluded that the needs of the Group would not be best served by putting the external audit out to tender at this time. The Committee has therefore recommended to the Board that the re-appointment of Deloitte LLP should be proposed at the forthcoming Annual General Meeting.

The Committee has noted the changes to EU audit legislation and the UK adoption of this legislation, which requires mandatory rotation for auditors of public interest entities at least every 20 years with a mandatory tender process being undertaken at the 10 year point. The transitional rules for this new legislation mean that the Group would be required to change its auditor after 2024. The Committee is also mindful of the restrictions which now apply to firms providing non audit services in the two year period prior to an audit appointment. A recommended course of action will be proposed to the Board in 2021. The Company confirms that it has complied with the provisions of the CMA's Statutory Audit Services Order for the financial year under review.

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

Non-audit services

The Committee has approved a policy in respect of non-audit services which reflects the Ethical Standards. The policy sets out a list of prohibited services and in particular, prevents Deloitte LLP from providing almost all taxation services. The policy provides that the total fees payable to the auditor for non-audit related work in any financial year should not normally be more than 50% of the total fees payable in respect of audit and compliance services. In addition, any proposed spend over a predetermined limit must be approved by the Committee.

The fees payable to the auditor in respect of audit and audit-related assurance services totalled £1,369,000 and there were no fees incurred for non-audit related work (excluding audit-related assurance services). Further detail on the fees paid is provided in Note 5.

Internal audit

The Committee reviews and approves the internal audit plan which is based on an assessment of the risks faced by the Group. The internal audit team undertakes an initial review of the risks and drafts a plan which addresses those risks while taking into account the need to review key control processes on a cyclical basis. The draft plan is then discussed with senior management in each business or territory before being presented to the Committee.

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

The Assurance & Risk Director reports ultimately to the Chairman of the Committee although he reports on a day-to-day basis to the Chief Financial Officer. He attends all meetings of the Committee and reports regularly to the Executive Committee. A report on completed internal audits is presented to each meeting of the Committee and, where appropriate, action plans are reviewed. In addition, all grade 1 audit reports are circulated to the Committee as soon as they are finalised so that any issues can be addressed in a timely manner. Reports are graded as 1 if the controls currently operated are inadequate and expose the business to significant loss or regulatory breach.

During the year, the Committee received 51 reports in respect of the following areas:

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

In relation to each of the above, internal audit made recommendations for improvements, the vast majority of which have been, or are being implemented by management. Management's approach to internal audit is generally positive and there is a real desire to work collaboratively to continually improve the control environment. Action trackers are reported on at each Committee meeting.

The internal audit function continues to benefit from a co-sourced arrangement with PwC which is used to augment the internal skills and experience available and ensure that the Group can access appropriate technical and specialised resource on a global and flexible basis.

The Committee has discussed the performance of internal audit and I have met with PwC. The Committee believes that internal audit performs in a very professional manner, provides constructive challenge and demonstrates a realistic and commercial view of the business.

Conclusion and looking ahead

The Committee considers that it has acted in accordance with its terms of reference and that it has ensured the independence, objectivity and effectiveness of the external and internal auditors.

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

I am available to speak with shareholders at any time. I would like to thank my colleagues on the Committee for their help and support during the year.

Ron McMillan

Chairman of the Audit & Risk Committee
19 May 2020

Directors' remuneration report

Dear Shareholder

I am pleased to present the Remuneration report for the year ended 31 March 2020.

Performance and reward

FY20 was another successful year for HomeServe in which we delivered double digit revenue and profit growth and continued to invest for the future. More detail on performance during the year is set out in the Strategic report on pages 2 to 51.

The stretching financial targets for the Group have been met but there was only partial achievement in respect of the non financial targets. Despite strong customer growth in Membership, particularly in North America and France, the growth in the number of trades in Home Experts fell short of the stretching target. The continued focus on delivering great customer service meant that the customer dissatisfaction target was met in full.

On employee engagement, the annual employee engagement survey was due to be run in March 2020. Given the COVID-19 crisis, it was agreed that it was not appropriate to run the survey due to the operational challenges being faced by the whole workforce. The Remuneration Committee evaluated this element based on the interim survey completed half way through the year and a COVID Care survey run to assess the impact of the crisis on our people, which reflected the tremendous efforts made to keep the business running during the crisis. On the basis of this evidence, it was agreed that it was appropriate to pay the part of the bonus relating to employee engagement in full.

In respect of longer-term performance, the LTIP awards granted in 2017 will vest in full in June 2020. The awards were based 25% on TSR performance and 75% on adjusted earnings per share (EPS) performance. HomeServe's TSR performance to 31 March 2020 was 118.3% (compared to the FTSE 250 Index TSR of 14.7%) and EPS growth of 15.26% per annum was achieved, representing significant growth for shareholders. The vested shares, net of tax, are subject to a two year post-vesting holding requirement.

A strong record of performance over the past three years and particularly in FY20 has led to commensurate payments to the Executive Directors, as indeed it has for colleagues across our business.

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

Remuneration policy renewal

The current policy was approved by shareholders at the 2017 AGM and in line with regulatory requirements is subject to a vote at the forthcoming AGM. Ahead of the policy renewal, the Committee reviewed the current arrangements in the light of feedback received from shareholders in recent years, developments in remuneration governance and market best practice and undertook a shareholder consultation.

We acknowledge that some investors were concerned about termination payments made last year to two former directors and as a result voted against the remuneration report at the AGM in 2019. We have taken this feedback into account and are recommending a policy going forward that specifically addresses these concerns.

The Committee believes that the current policy has served the Company and its stakeholders well. The policy includes a number of features that are already in line with the new UK Corporate Governance Code, including the two year holding periods for vested LTIP awards and the ability to apply malus and clawback to bonus and LTIP awards. However, in order to maintain alignment with changes in market best practice, several changes are proposed to take account of governance developments and recent investor feedback. An overview of the proposed changes is set out below.

a) Termination Arrangements

The current policy allowed for flexibility in the declaration of notice periods for departing Executive Directors (which, last year, allowed for notice periods to commence for two directors after their redundancies were announced publicly, in effect extending payment of salary, pension contributions and benefits continuation beyond 12 months from announcement). In response, the Committee is proposing that the policy be amended to allow payment of no more than 12 months' pay from the date of announcement (i.e. notice would be served concurrently with announcement).

b) Pension

The current policy for Executive Directors allows for pension contributions (or cash in lieu) of up to 20% of salary. Our pension provision for employees in the wider workforce is varied, as summarised below:

- The majority of the UK workforce receives a defined company contribution of 6% of salary;
- A small number of senior managers in the UK receive a 10% defined contribution rate, or cash in lieu, with pensionable salary capped at £148k (which increases each year in line with inflation).

Our proposal for the new policy is to align the maximum company contribution for new Executive Directors with the majority of the wider workforce, up to a maximum of 6% of salary. For existing directors, it was agreed that contributions would be reduced to the level of the workforce not later than the end of 2022.

c) Post-cessation shareholding requirements

Under our current policy, any share awards to Executive Directors retained by good leavers will vest on their normal vesting date, but there is no formal requirement to maintain a shareholding post cessation. While employed, Executive Directors have a minimum shareholding requirement of 300% of salary, which is above market for a company of our size.

We are therefore proposing to implement a guideline for post-cessation shareholding requirements which is in line with the more usual shareholding level of 200% of base salary; this would apply for two years post cessation and would apply to shares awarded after the implementation of the new policy.

d) LTIP

No changes are being recommended to the structure of the LTIP, since we believe it continues to work well for the company and it received very strong support from shareholders when we renewed the plan in 2018. We are currently considering the performance criteria for the awards in FY21, taking into account the context of the COVID-19 pandemic and will announce the details when awards are granted.

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

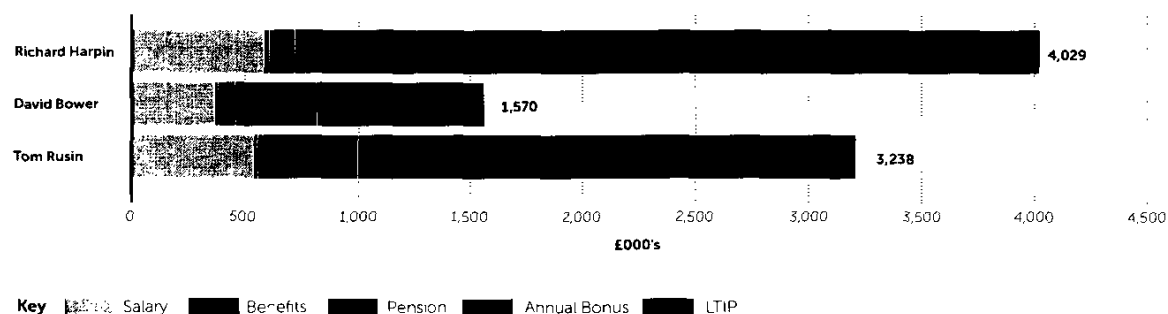
Katrina Cliffe

Chairman of the Remuneration Committee
19 May 2020

Remuneration at a glance

Single Total Remuneration Figure (£000)

A significant proportion of remuneration is delivered through share-based, long-term variable pay.



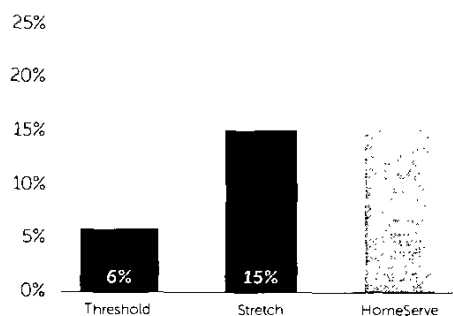
Annual Bonus Outcome

The information below is based on Group performance, a proportion of Tom Rusin's bonus is based on Membership performance as set out on page 96.

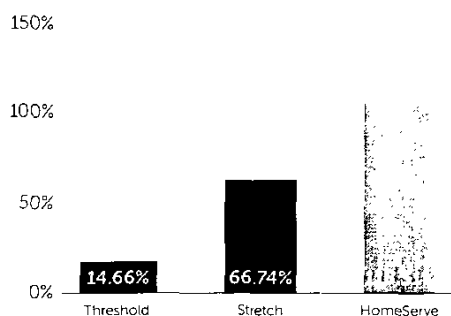
		Weighting	Target/Stretch	Actual	% Payable
Financial measures	Group profit before tax	20%	£181.0m	£181.0m	100%
	Group net debt - year end	5%	£515.8m	£449.7m	100%
	Group net debt - half year	5%	£444.5m	£415.0m	100%
Non financial measures	Customer growth	20%	8.2m	8.3m	100%
	Trades growth	5%	81k	66k	0%
	Customer dissatisfaction	20%	5.0	4.6	100%
	Employee engagement	5%	74%	n/a	100%
	Personal targets	20%			70-100%

LTIP Outcome

Adjusted earnings per share (75% weighting)



Relative TSR (25% weighting)



Directors' remuneration policy

The Directors' remuneration policy was approved by shareholders at the 2017 AGM and as required under the regulations, will be re-submitted to shareholders for approval at the 2020 AGM. An overview of the proposed changes to the policy is set out in the Chairman's letter.

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

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

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

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

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

A risk review of the remuneration policy was completed during the year by Aon plc and considered by the Committee in May 2020. The review identified the potential risks in respect of the policy and assessed the controls and procedures in place to mitigate those risks. The Committee concluded that overall, the remuneration policy was appropriate and did not encourage excessive risk taking.

Summary of components of Executive Directors' remuneration

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

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
Basic salary	To reflect the particular skills and experience of an individual and to provide a competitive base salary compared with similar roles in similar companies.	Usually reviewed annually, with any changes normally taking effect from 1 July each year.	<p>Individual pay is determined by the Committee taking into account the role, responsibilities, performance and experience of the individual and market data on comparable roles.</p> <p>The Committee has not set a cap on the maximum salary level that may be offered. However, any salary increases will normally be no higher than the typical level of increase awarded to other employees.</p> <p>Increases above this level may be offered in certain circumstances such as where an Executive Director has been promoted, has had a change in responsibility, to reflect increased experience in the role, or where there has been a significant change in the size and/or scope of the business.</p> <p>When reviewing salary increases, the Committee also takes into account the impact of any increase to base salaries on the total remuneration package.</p> <p>Details of the current salaries of the Executive Directors are set out in the Annual report on remuneration.</p>

Directors' remuneration policy

Continued

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
Performance related bonus	The annual bonus is designed to drive and reward the short-term operating performance of the Company and encourage the delivery of consistently good customer outcomes.	Annual (determined after the year end)	<p>Annual bonuses are determined by reference to performance against a mix of financial, non financial and personal objectives. Before any bonus is payable a minimum level of financial performance must be achieved.</p> <p>Bonuses are based on Group performance. Individual performance accounts for no more than 20% of the overall bonus opportunity.</p> <p>The maximum potential quantum is 100% of salary.</p> <p>Bonuses are payable in cash but may be voluntarily invested by the executive into shares under the matching element of the LTIP.</p>
Long-term incentives	To drive long-term delivery of the Group's objectives, to align Directors' interests with those of the Company's shareholders and to encourage exceptional performance.	Three years	<p>Awards of performance and matching shares are granted under the Long Term Incentive Plan (which was approved by shareholders in 2008 and renewed at the 2018 AGM).</p> <p>The maximum limit is 200% of salary for performance share awards (currently, awards of 150% of salary are made to the Executive Directors) and a maximum 2:1 match on voluntary investment of bonus into shares.</p> <p>The maximum amount of bonus that may be invested is set at 75% of the maximum bonus potential (i.e. 75% of salary). If the bonus earned is less than 25% of salary, then the executive may invest the equivalent of 25% of salary, from their own money, in shares to receive a matching award. In determining the number of matching awards to be granted, the investment is deemed to be made gross of tax.</p> <p>Dividend equivalents may be awarded on shares vesting under the Plan.</p> <p>Performance awards and matching awards are subject to challenging performance conditions. Performance is measured over a performance period of at least three years and a two year post vesting holding period applies.</p>
Pension	To provide benefits comparable with similar roles in similar companies.	N/A	<p>Newly appointed UK based Executive Directors may receive a pension allowance that is aligned with the majority of colleagues (currently 6% of salary in the UK), to be paid, subject to the scheme limits, into the HomeServe Money Plan (a money purchase pension scheme) and/or taken as a cash allowance in lieu.</p> <p>Current Executive Directors receive a pension allowance of 20% of salary, which may be taken as a cash allowance in lieu. This benefit will reduce to the level of the workforce no later than December 2022.</p>
Other benefits	Provides a competitive package of benefits to assist with recruitment and retention of staff.	N/A	<p>Other benefits include a fully expensed car (or cash alternative), fuel allowance, private health cover (for the individual, partner and dependant children), death in service benefits (up to 8 x salary) and permanent health insurance.</p> <p>Other benefits may be provided as appropriate and Directors can access HomeServe products and services on the same terms as offered to employees.</p> <p>Any reasonable business related expenses (including tax thereon) may be reimbursed if determined to be a taxable benefit.</p> <p>There is no maximum limit on the value of the benefits provided but the Committee monitors the total cost of the benefit provision</p>

Element	Purpose and link to strategy	Performance Period	Operation (including performance measures and maximum limits)
All Employee Share Plans	To encourage employee share ownership.	N/A	The Executive Directors may participate in any employee share plans offered by the Company on the same terms as other employees.
Chairman and Non-Executive Directors' fees	To attract and retain Non-Executive Directors of the right calibre.	N/A	<p>Non-Executive Director fees are determined by the Board. The fees for the Chairman are determined by the Remuneration Committee taking into account the views of the Chief Executive. The Chairman excludes himself from such discussions.</p> <p>The fee levels are reviewed periodically and are set to reflect the responsibilities and time commitment of the role and the experience of the individual. Fee levels are set by reference to rates in companies of comparable size and complexity. The fees for the Non-Executive directors comprise a basic Board fee, with additional fees paid for chairing a Committee or for the Senior Independent Directorship. The Chairman receives an all encompassing fee for his role</p> <p>In exceptional circumstances, additional fees may be payable to reflect a substantial increase in time commitment. Fees are paid monthly in cash.</p> <p>Any reasonable business related expenses (including tax thereon) may be reimbursed if determined to be a taxable benefit.</p> <p>The Chairman and Non-Executive Directors may be eligible to access HomeServe products and services on the same terms as offered to employees.</p>

Performance measures

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

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

Metric	Type of Award	Link to strategy
Profit Before Tax	Bonus	Core short-term profitability metric
Customer/Trades Growth	Bonus	Core non-financial top line volume metric aligned with our growth strategy
Reduced Customer Dissatisfaction	Bonus	Core non-financial quality metric that contributes to long-term customer retention and reflects operational improvement
Personal Strategic Objective	Bonus	One unique non-financial personal strategic objective reflecting a "must win" goal for that individual in the year
Earnings per Share (EPS)	LTI	This provides an assessment of the profitability of the Group over the longer-term and is strongly aligned to the execution of the business strategy. Challenging targets are set for each award cycle based on internal and external forecasts.
Total Shareholder Return (TSR)	LTI	This measures the total return provided to shareholders through share price appreciation and dividends. TSR provides a clear alignment between the value created for shareholders and the reward earned by executives.

The Committee would consult with shareholders in advance of the introduction of new measures to be applied to future award cycles.

Directors' remuneration policy

Continued

Annual Bonus

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

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

LTIP

Long-term incentive awards will be granted in accordance with the rules of the shareholder approved HomeServe 2018 Long-Term Incentive Plan (LTIP) (and any subsequent replacement plan) and the discretions contained therein. The performance measures for the matching and performance awards are set using a sliding scale of targets and no more than 25% of the award will vest for achieving the threshold performance hurdle.

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

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

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

Clawback

The Committee has the power to reclaim some, or all, of a cash bonus and vested LTIP awards (performance and matching) in exceptional circumstances, such as misstatement of financial results, an error in assessment of performance, the use of misleading information and/or gross misconduct on the part of the individual. The Committee's power was strengthened in 2018 as part of the LTIP review process.

Shareholding guidelines

It is the Board's policy that Directors build up and retain a minimum shareholding in the Company. A formal policy in respect of the shareholding requirement was adopted during FY19. Each Director is encouraged to hold shares of at least equal value to three times their annual basic salary or fee. For new Directors, the requirement is expected to be met within five years of appointment (within five years of the adoption of the new policy for existing Directors).

If the holding guideline has not been fulfilled at the point of exercise of any option or the vesting of any other long-term incentive award, the Director must retain 50% of the net proceeds in the Company's shares until the holding requirement is achieved. Details of the current shareholdings of the Directors are provided on page 101.

The policy also reflects the post vesting shareholding requirement in respect of the Long-Term Incentive Plan whereby the net of tax value of shares that vest must be retained for a period of two years.

We are proposing to implement a guideline for post-cessation shareholding requirements of 200% of base salary; this would apply for two years post cessation and would apply to shares awarded after the implementation of the new policy.

How employees' pay is taken into account

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

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

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

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

How shareholders' views are taken into account

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

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

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

Dates of current contracts are summarised in the table below.

Name	Date of contract
D Bower	3 February 2017
R Harpin	18 January 2002
T Rusin	4 April 2018

Should notice be served, the Executives can continue to receive basic salary, benefits and pension for the duration of their notice period. The Company may require the individual to continue to fulfil their current duties, or may assign a period of garden leave. The Company applies a general principle of mitigation in relation to termination payments and supports the use of phased payments. From the date of the announcement of an Executive Director's termination, any payment would be capped at 12 months' pay (that is, notice must be served concurrent with the announced departure).

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

The service contracts also enable the Company to elect to make a payment in lieu of notice equivalent in value to twelve months' base salary, benefits and pension.

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

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

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

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

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

Recruitment Policy

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

Directors' remuneration policy

Continued

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

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

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

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

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

Non-Executive Directors' letters of appointment

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

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

Details of their current three year appointments are as follows:

Name	Date of contract
K Cliffe	23 May 2017
S David	23 November 2019
E Fitzmaurice	23 May 2017
J M B Gibson	1 April 2019
O Grémillon	29 March 2019
R McMillan	27 October 2017

Outside Appointments

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

Annual report on remuneration

This part of the report has been prepared in accordance with Part 3 of the revised Schedule 8 set out in The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, and 9.8.6R of the Listing Rules. The annual report on remuneration will be put to an advisory shareholder vote at the 2020 Annual General Meeting.

Remuneration Committee Members

Katrina Cliffe (Chairman)
 JM Barry Gibson
 Stella David
 Edward Fitzmaurice (appointed 30 January 2020)
 Olivier Grémillon (appointed 30 January 2020)
 Ron McMillan

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

Responsibilities

The principal role of the Remuneration Committee is to set the framework and policy for remuneration of the Board of Directors, both Executives and Non-Executives, and the Executive Committee. In determining these arrangements, the Committee takes account of the employment conditions and remuneration arrangements across the Group, seeking to ensure they align with common objectives and are based on the same principles. Insofar as possible, we ensure they also follow similar structures, since this is the most reliable way of ensuring transparency. We aim to offer a remuneration package that is sufficiently attractive to attract and appropriately reward the leadership team required to successfully run a complex international Group.

The primary responsibilities of the Committee include:

- Determining the Group's overall remuneration strategy
- Determining the remuneration packages of the Executive Directors and other members of the Executive Committee
- Selecting the measures and setting the performance criteria for the annual bonus and LTIP; and, at the end of the performance periods, evaluating performance against these criteria and determining if discretion should be applied in determining the final level of payment
- Approving the grant and exercise of executive share-based long-term incentive arrangements and overseeing the operation of other share-based plans across the Group
- Agreeing the terms and conditions of service agreements with Executive Directors, including termination payments
- Monitoring the pay of the Executive Committee whose pay is set against that of the whole workforce; in this regard, the Committee reviews internal relativities and pay ratios, and invites the Group People Director to its meetings to provide a full picture of pay and conditions across the Group
- Considering the guidance issued by shareholders, their representative bodies and proxy agencies (including the Investment Association and Institutional Shareholder Services) on matters related to executive compensation and corporate governance; further, the Committee encourages an open dialogue with shareholders throughout the year, soliciting feedback and consulting their views ahead of enacting significant changes to the Policy Report or its implementation.

Annual report on remuneration Continued

The Committee's terms of reference were reviewed during the year to ensure they were aligned to the new UK Corporate Governance Code. The full schedule is available on our website.

<http://www.homeserveplc.com/about-us/corporate-governance/our-board>

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

The Committee aims to develop and recommend remuneration strategies that drive performance and reward it appropriately. In determining its policy, the Committee has paid regard to the principles and provisions of good governance contained in the Code and the guidelines issued by institutions such as the Investment Association, ISS and the Pensions and Lifetime Savings Association (PLSA). The Committee operates under the delegated authority of the Board.

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

The Committee has agreed and implemented a procedure for reviewing and assessing its own effectiveness as part of the annual effectiveness review of the Board.

Key issues considered during the year

Aside from the usual cycle of discussions in respect of pay and bonuses, the key issue discussed by the Committee during the year was the renewal of the remuneration policy.

Advisers

During the year, independent advice was received by the Committee from the Executive Compensation practice of Aon plc. The Committee selects its own advisers. Aon also provided technical implementation and accounting advice in relation to the administration of the Company's share schemes. Aon is a member of the Remuneration Consultants Group and is a signatory to its Code of Conduct. During the year, insurance broking services were also provided to the Group by other subsidiaries of Aon plc, which the Committee considers in no way prejudices Aon's position as the Committee's independent advisers.

Fees charged by Aon for advice provided to the Committee for the year ending 31 March 2020 amounted to £80,384 (excluding VAT). Aon also provided additional remuneration advisory services to the Company during the year ending 31 March 2020 which fell outside of its support to the Remuneration Committee. These fees amounted to £23,445 (excluding VAT).

The Committee has also received assistance from Richard Harpin, Group Chief Executive, David Bower, Chief Financial Officer, Kate Keyworth, Group People Director and Anna Maughan, Company Secretary, all of whom attended meetings of the Committee as required. No Executive took part in discussions in respect of matters relating directly to their own remuneration.

Remuneration for the year under review (Audited)

	Year	Salary and fees £000	Taxable benefits ⁶ £000	Pension ⁷ £000	Bonus £000	LTIP ⁸ £000	Total FY20 £000	Total FY19 £000
Executives								
D Bower	FY20	375	18	75	356	746	1,570	
	FY19	328	20	66	246	395		1,055
R Harpin	FY20	585	28	117	538	2,761	4,029	
	FY19	574	29	110	430	4,538		5,681
T Rusin ¹	FY20	519	9	9	462	2,239	3,238	
	FY19	494	10	9	361	3,313		4,187
M Bennett ²	FY20	—	—	—	—	—	—	
	FY19	129	6	26	98	—		259
J Ford ³	FY20	—	—	—	—	—	—	
	FY19	309	15	62	219	—		605
Non-Executives								
K Cliffe	FY20	68	—	—	—	—	68	
	FY19	62	—	—	—	—		62
S David	FY20	70	—	—	—	—	70	
	FY19	78	—	—	—	—		78
E Fitzmaurice	FY20	55	—	—	—	—	55	
	FY19	55	—	—	—	—		55
O Grémillon ⁴	FY20	55	—	—	—	—	55	
	FY19	—	—	—	—	—		—
J M B Gibson	FY20	263	—	—	—	—	263	
	FY19	250	—	—	—	—		250
R McMillan	FY20	65	—	—	—	—	65	
	FY19	65	—	—	—	—		65
C Havemann ⁵	FY20	—	—	—	—	—	—	
	FY19	41	—	—	—	—		41
Total FY20		2,055	55	201	1,356	5,746	9,413	
Total FY19		2,385	80	273	1,354	8,246		12,338

¹ Tom Rusin is paid in USD and the USD amounts have been converted into GBP for the purposes of this table using the average exchange rate for FY20

² Martin Bennett left the Board on 20 July 2018

³ Johnathan Ford left the Board on 31 December 2018

⁴ Olivier Grémillon was appointed to the Board on 29 March 2019

⁵ Chris Havemann retired from the Board on 1 December 2018

⁶ Benefits comprise company car, fuel allowance and medical insurance

⁷ Details of pension contributions can be found later in the report

⁸ The figures for FY19 have been updated to reflect the actual share price on vesting for the 2016 award. The figures for FY20 are based on the average share price over the last three months of the financial year as the awards have not yet vested. The value shown for each LTIP award includes an amount in respect of dividend equivalents

Annual report on remuneration

Continued

Details of variable pay earned in the year (Audited)

Annual Bonus

For FY20, the annual bonus was based on the following stretching targets:

Financial and non financial bonus targets for David Bower and Richard Harpin

		Weighting	% Payable at Threshold	Threshold	Target/Stretch	Actual	% Payable
Financial measures	Group profit before tax	20%	25%	£172.0m	£181.0m	£181.0m	100%
	Group net debt - year end	5%	—	—	£515.8m	£449.7m	100%
	Group net debt - half year	5%	—	—	£444.5m	£415.0m	100%
Non financial measures	Customer growth	20%	—	—	8.2m	8.3m	100%
	Trades growth	5%	—	—	81k	66k	0%
	Customer dissatisfaction (measured as a weighted average level of customer dissatisfaction across the UK, US, France and Spain)	20%	—	—	5.0	4.6	100%
	Employee engagement	5%	—	—	74%	—	100%

Financial and non financial bonus targets for Tom Rusin

		Weighting	% Payable at Threshold	Threshold	Target/Stretch	Actual	% Payable
Financial measures	Group profit before tax	20%	25%	£172.0m	£181.0m	£181.0m	100%
	Membership net debt - year end	5%	—	—	£392.3m	£358.8m	100%
	Membership net debt - half year	5%	—	—	£349.0m	£393.3m	100%
Non financial measures	Customer growth	20%	—	—	8.2m	8.3m	100%
	Trades growth	5%	—	—	81k	66k	0%
	Customer dissatisfaction (measured as a weighted average level of customer dissatisfaction across the UK, US, France and Spain)	20%	—	—	5.0	4.6	100%
	Employee engagement	5%	—	—	74%	—	5%

The annual employee engagement survey was due to be run in March 2020. Given the COVID-19 crisis, it was agreed that it was not appropriate to run the survey due to the operational challenges being faced by the whole workforce. The Remuneration Committee considered the tremendous efforts made to keep the business running during the crisis, the results of the interim survey completed half way through the year and a COVID Care survey run to assess the impact of the crisis on our people. On the basis of the evidence presented, it was agreed that it was appropriate to pay the part of the bonus relating to employee engagement in full.

Personal bonus targets

	Objectives	Weighting	Outcome	% Payable
D Bower	<ul style="list-style-type: none"> Establish a framework for HVAC M&A. Deliver a successful Investor Day. Develop additional long-term incentives for new businesses. Deliver significant IT cost savings. 	20%	Key achievements included: <ul style="list-style-type: none"> Implemented a streamlined approvals process which has increased deal flow. The Investor Day won best external event at the Corporate Communications Awards. Special Value Creation Plan implemented for Home Experts and Japan. Budgeted savings were delivered. 	100%
R Harpin	<ul style="list-style-type: none"> Purchase remaining 30% of Habitissimo and appoint a new management team. Prove out at least three elements of the new Checktrade model. Accelerate the development of LeakBot. Sign first utility partnership in Japan. 	20%	Key achievements included: <ul style="list-style-type: none"> Remaining shares purchased and new CEO appointed. Implemented a new recruitment model for Checktrade and added shortlist capability and video quotations. LeakBot rolled out by one UK insurer and trials commenced in the US. Signed Chugoku Electric and commenced marketing. 	85%
T Rusin	<ul style="list-style-type: none"> Test HomeServe Now. Prove out Whole Home Warranty. Deliver the HVAC operating plan and progress the M&A pipeline. Launch a fully digital version of HomeServe Membership. 	20%	Key achievements included: <ul style="list-style-type: none"> HomeServe Now tested in both the UK and the US. Purchased two whole home warranty businesses and developed winning TV advertising. Developed HVAC operating plans in each territory and the M&A pipeline. Completely digital customer journey launched in the US. 	70%

Annual report on remuneration Continued

The stretching financial targets for the Group have been met but there was only partial achievement in respect of the non financial targets. Despite strong customer growth in Membership, particularly in North America and France the growth in the number of trades in Home Experts fell short of the stretching target. The continued focus on delivering great customer service meant that the customer dissatisfaction target was met in full.

Having reviewed performance, the following bonuses were payable:

Name	Bonus £	% of salary
D Bower	356,250	95%
R Harpin	538,366	92%
T Rusin	461,654	89%

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

Long-term Incentive Plan

The 2017 LTIP performance and matching awards were granted on 27 June 2017. The performance awards were granted in two parts with different performance conditions applying to each part.

The performance conditions for the performance and matching awards were as follows

Condition	Percentage of award to which the condition applies	Performance period	Threshold target	Stretch target	Actual performance	Vesting
TSR (underpinned by underlying financial performance)	25%	3 years to 31 March 2020	TSR equal to the FTSE 250 index	TSR exceeds the index by an average of 15% p.a.	118.3%	100%
EPS	75%	3 years to 31 March 2020	Compound annual growth of 6%	Compound annual growth of 15%	15.26%	100%

Based on the strong performance of HomeServe over the performance period the stretch performance targets were exceeded and the awards will vest in full in June 2020. A two year post-vesting holding requirement applies to the awards.

The 2017 awards have been valued for the purpose of the remuneration table on page 95 using the average share price over the last three months of the financial year.

Summary of outstanding awards (Audited) LTIP

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

	31 March 2020	Awarded during year	Lapsed during year	Vested during year	31 March 2019	Date granted	Type of award
D Bower	—	—	—	31,779	31,779	1.7.16	Performance
	59,250	—	—	—	59,250	27.6.17	Performance
	46,247	—	—	—	46,247	24.7.18	Performance
	45,117	—	—	—	45,117	24.7.18	Matching
	47,468	47,468	—	—	—	26.6.19	Performance
	40,789	40,789	—	—	—	26.6.19	Matching
R Harpin	—	—	1,912	209,426	211,338	1.7.16	Performance
	—	—	—	155,521	155,521	1.7.16	Matching
	111,632	—	—	—	111,632	27.6.17	Performance
	107,547	—	—	—	107,547	27.6.17	Matching
	87,133	—	—	—	87,133	24.7.18	Performance
	84,691	—	—	—	84,691	24.7.18	Matching
	74,438	74,438	—	—	—	26.6.19	Performance
	71,453	71,453	—	—	—	26.6.19	Matching
T Rusin	—	—	1,408	154,216	155,624	1.7.16	Performance
	—	—	—	112,223	112,223	1.7.16	Matching
	93,920	—	—	—	93,920	27.6.17	Performance
	83,823	—	—	—	83,823	27.6.17	Matching
	74,699	—	—	—	74,699	24.7.18	Performance
	67,192	—	—	—	67,192	24.7.18	Matching
	65,926	65,926	—	—	—	26.6.19	Performance
	62,030	62,030	—	—	—	26.6.19	Matching

The performance conditions for the outstanding awards are as follows.

- 25% comparative TSR (FTSE 250 Index + 15% per annum for maximum vesting)
- 75% compound annual EPS growth (15% CAGR for maximum vesting).

Annual report on remuneration

Continued

Further details on LTIP awards granted in the year

On 26 June 2019, the following performance and matching share awards were granted to the Executive Directors under the LTIP:

Performance share awards

	Date of grant	Number of shares	Share price used to determine awards	Award size (% salary)	Face value at grant £	% that vests at threshold
D Bower	26.6.19	47,468	£11.85	150%	562,496	25%
R Harpin	26.6.19	74,438	£11.85	150%	882,090	25%
T Rusin	26.6.19	65,926	£11.85	150%	781,223	25%

Matching share awards

	Date of grant	Number of investment shares purchased	Award size	Number of shares subject to matching award	Share price used to determine awards	Face value £	% that vests at threshold
D Bower	26.6.19	10,809	2:1 match	40,789	£11.85	483,350	25%
R Harpin	26.6.19	18,935	2:1 match	71,453	£11.85	846,718	25%
T Rusin	26.6.19	16,438	2:1 match	62,030	£11.85	735,056	25%

The performance awards and the matching awards are subject to two performance conditions. 25% of the awards are subject to a relative total shareholder return performance condition that requires HomeServe's TSR to match that of the FTSE 250 Index over a three year performance period for threshold vesting, increasing on a straight-line basis to Index + 15% per annum for full vesting. The other 75% of the awards are subject to an earnings per share condition that requires compound annual EPS growth of 9% to 15% per annum. 9% growth would result in threshold vesting, increasing on a straight-line basis to full vesting if growth of 15% per annum is achieved.

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

Further details on awards vested in the year

Performance and matching awards granted on 1 July 2016 vested in full during the year.

	Date of grant	Type of Award	Date of exercise	No of Shares	Share price at exercise	Face value at exercise £	Dividend equivalents paid in cash £
D Bower	1.7.16	Performance	3.7.19	31,779	£11.95	379,759	15,413
R Harpin	1.7.16	Performance	3.7.19	209,426	£11.95	2,502,641	101,572
	1.7.16	Matching	3.7.19	155,521	£11.95	1,858,476	75,428
T Rusin	1.7.16	Performance	3.7.19	154,216	£11.95	1,842,881	74,795
	1.7.16	Matching	3.7.19	112,223	£11.95	1,341,065	54,428

One Plan Matching Shares (Share Incentive Plan)

	31 March 2020	Sold during the year to pay tax on vesting	Acquired during year	31 March 2019	Aggregate face value of shares awarded during the year £
R Harpin	382	—	78	304	903
D Bower	382	—	78	304	903
T Rusin	371	53	93	331	1,081

¹ Based on the acquisition price of the associated Partnership Shares. The highest share price was £13.38 and the lowest share price was £8.72

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

Shareholding Guidelines (Audited)

It is the Board's policy that Executive Directors build up and retain a minimum shareholding in the Company. Each Director is encouraged to hold shares of at least equal value to 300% of their annual basic salary or fee.

Under the Long-Term Incentive Plan, the net of tax value of shares that vest must be retained for a period of two years.

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

	19 May 2020	31 March 2020	31 March 2019	Outstanding LTIP awards	Total 31 March 2020	Value of shares counting towards guideline holding (as a % of salary or fee) ¹	Guideline met?
D Bower	124,688	124,648	113,586	238,871	363,519	352%	Yes
R Harpin ²	40,553,137	40,553,117	40,146,773	536,894	41,090,011	72,960%	Yes
T Rusin	703,886	703,862	544,634	447,590	1,151,453	1,429%	Yes
K Cliffe	18,276	18,276	12,076	—	18,276	267%	No
S David	100,020	100,020	68,945	—	100,020	1,628%	Yes
E Fitzmaurice	786,265	786,265	786,265	—	786,265	15,125%	Yes
O Grémillon	10,000	10,000	—	—	10,000	192%	No
J M B Gibson	150,070	150,070	150,070	—	150,070	529%	Yes
R McMillan	15,249	15,249	—	—	15,249	248%	No

¹ Calculated using the shareholding and share price on 31 March 2020 of £10.58 divided by the Executive's salary or Non-Executive's fee on that date

² Total shareholding includes an indirect interest of 9,285 shares

Directors' pensions (Audited)

The following contributions were made:

	2020 £000	2019 £000
R Harpin	117	110
D Bower	75	66

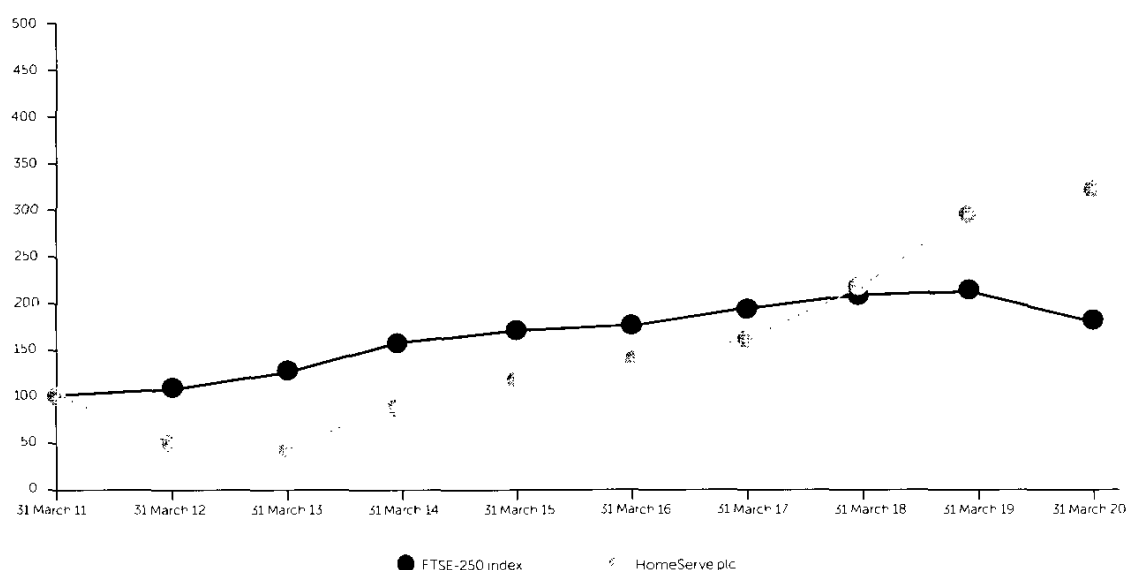
Tom Rusin participates in a US 401k pension plan (a defined contribution scheme) to which the Company contributed £8,915 (\$11,340) in FY20. (FY19: £8,783)

Annual report on remuneration

Continued

Performance graph

The graph below shows the Company's performance, measured by TSR, compared with the performance of the FTSE-250 Index (also measured by TSR) for the ten years ended 31 March 2020. This comparator has been chosen as it is a broad equity index of which the Company is a constituent and it is also the one used in assessing relative TSR performance under the LTIP.



This graph shows the value, by 31 March 2020, of £100 invested in HomeServe on 31 March 2011 compared with that of £100 invested in the FTSE-250 Index on the same date

Chief Executive's remuneration

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

	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Total remuneration (£000s)	953	559	953	1,212	1,200	3,355	4,256	8,563 ²	4,749 ³	4,029
Annual Bonus	87%	0%	75%	100%	96%	98%	100%	96%	75%	92%
LTIP awards vesting	51% ¹	60%	0%	0%	0%	100%	100%	100%	100%	100%

Notes

¹ No LTIPs were due to vest in FY11. The ESOP awards granted in 2007 lapsed as the performance conditions were not met. Awards made under the Deferred Bonus Plan vested on the basis of 2.48 shares out of a maximum 3.

² The total includes the 2014 and 2015 LTIP awards which were granted and vested a year apart.

³ Standard LTIPs vested at 100%. Additional LTIPs vested at 96.38%.

Percentage change in remuneration levels

The table below shows the percentage change in the Chief Executive's total remuneration (excluding the value of any pension, matching awards and performance awards receivable in the year) between FY19 and FY20 compared to the average for all employees of HomeServe plc.

	% Change from FY19 to FY20		
	Salary	Benefits	Annual Bonus
Chief Executive Officer	2.0%	-1.9%	25.1%
Average of other HomeServe plc employees	-4.4%	0.0%	0.1%

CEO pay ratio

The table below compares the Chief Executive's total remuneration against that of all of its UK employees.

Year	Method	25th Percentile pay ratio	Median pay ratio	75th percentile pay ratio
FY20	Option B	278:1	172:1	125:1

In terms of reporting options, the Company chose option B, using the most recent gender pay gap information to determine the relevant employee at the 25th, 50th and 75th percentile to compare to the Chief Executive's pay, as that data was considered to be the most accurate and comprehensive data available. It refers to gender pay data as at 1 April 2019.

Relative importance of spend on pay

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

	FY19 £m	FY20 £m	% change
Pay (£m)	306.9	339.2	11%
Dividends (£m)	65.0	73.5	13%
Tax (£m)	31.2	32.1	3%
Retained profits (£m)	108.5	106.0	-2%

£6.9m of the staff costs figures relate to pay for the Executive Directors. This is different to the aggregate of the single figures for the year under review due to the way in which the share based awards are accounted for.

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

Application of the remuneration policy for FY21

Basic salary

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

Salaries are normally reviewed in July each year (unless responsibilities change). Given the opportunity for short-term profit growth will be more limited as a result of the COVID-19 crisis, the Committee has decided that no inflationary salary increases will be awarded during FY21.

The salaries for the Executive Directors will therefore continue to be as follows:

Name of Director	Salary
D Bower	£375,000
R Harpin	£588,064
T Rusin	\$663,000

Annual report on remuneration Continued

Fees for the Chairman and Non-Executive Directors

As detailed in the remuneration policy, the Company aims to set remuneration for Non-Executive Directors at a level which is sufficient to attract and retain Non-Executive Directors of the right calibre. The fees paid to the Chairman and the Non-Executive Directors are reviewed periodically. The fees for the Non-Executive Directors were reviewed during FY19 but no changes were made.

During FY20, as part of the work undertaken in respect of the search for a successor to Barry Gibson, the Chairman, the fees paid in respect of that role were reviewed. The Chairman's fee had been unchanged since 2016 and having reviewed the market data, and taking into account the growth in the size and complexity of the Group, it was agreed that the fee be increased from £250,000 to £300,000. This increase took effect on 1 January 2020.

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

Chairman's fees	£300,000
Senior Independent Director additional fee	£7,500
Non-Executive Directors' base fee	£55,000
Chair of Remuneration, Audit & Risk or People Committee	£10,000

Annual bonus performance targets

The annual bonus plan for FY21 will operate on a similar basis to FY20 and is consistent with the policy detailed earlier in this report.

The bonus measures will be as follows:

Financial measures (40% of bonus)	Non financial measures (40% of bonus)	Personal objectives (20% of bonus)
<ul style="list-style-type: none"> Profit before tax 	<ul style="list-style-type: none"> Customer/trades growth (20%) Reduction in Customer dissatisfaction (20%) 	<ul style="list-style-type: none"> One personal strategic objective

The Committee considers the forward looking performance targets to be commercially sensitive but more detailed disclosure will be provided in next year's remuneration report.

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

Long-term incentives

The long-term incentive plan will continue to provide a mix of performance (up to 200% of salary) and matching share awards (2:1 match on up to 75% of salary bonus invested in shares). In line with the policy, the FY20 Performance Share award for Executive Directors will be at 150% of salary.

Performance criteria

Performance criteria for the FY21 grant are still under consideration and will be confirmed when awards are granted.

Holding period for vested shares

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

Shareholding guidelines

The minimum required shareholding for each Executive Director is three times annual basic salary. Shareholding guidelines at three times their fee also applies to Non-Executive Directors.

Shareholder voting at the 2019 Annual General Meeting

At last year's Annual General Meeting held on 19 July 2019, the following votes from shareholders were received:

	Total number of votes	Remuneration report % of votes cast
For	182,688,926	69%
Against	80,889,568	31%
Total votes cast (for and against excluding withheld votes)	263,578,494	100%
Votes withheld	8,772,877	
Total votes (including withheld votes)	272,351,371	

General

The market price of the Company's shares at 31 March 2020 was £10.58 (2019: £10.25). During the year the price ranged from £7.68 to £13.40.

The shares required for share options and awards under any of the long-term incentive schemes described above may be fulfilled by the purchase of shares in the market by the Company's Employee Benefit Trust (EBT). Awards may also be fulfilled through newly issued shares, subject to the dilution limits within each scheme (which are fully compliant with investor guidelines). As beneficiaries under the EBT, the Directors are deemed to be interested in the shares held by the EBT which at 31 March 2020 amounted to 265,204 ordinary shares.

By Order of the Board

Katrina Cliffe

Chairman of the Remuneration Committee
19 May 2020

Directors' report

The Directors have pleasure in presenting their Annual Report for the year ended 31 March 2020.

Management report

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

Statutory information contained elsewhere in the Annual Report

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

Information	Location in Annual Report
Likely future developments in the business of the Company or its subsidiaries	Pages 2 to 51
Employees (employment of disabled persons, employee engagement and policies)	Pages 19 to 21
Stakeholder engagement	Page 18
Corporate Governance Statement	Pages 52 to 81
Directors' details (including changes made during the year)	Pages 65, 66 and 68
Related party transactions	Note 49 on page 188
Diversity	Page 21
Share Capital	Note 28 on page 166
Going Concern and Viability Statement	Pages 47 to 49
Employee share schemes (including long-term incentive schemes)	Note 32 on page 169
Financial instruments. Information on the Group's financial instruments and risk management objectives and policies, including our policy for hedging	Notes 27 and 45 on pages 164 and 183
Statements of responsibilities	Page 109
Disclosure of information to auditor	Page 109

Results and Dividends

The Directors are recommending the payment on 3 August 2020 of a final dividend of 17.8p per ordinary share to shareholders on the register at the close of business on 3 July 2020 which, together with the net interim dividend of 5.8p per ordinary share paid on 7 January 2020, results in a total net dividend for the year of 23.6p per share (FY19: 21.4p).

Political donations

No political donations were made during the year

Rules on appointment and replacement of Directors

All the Directors will seek re-election at the AGM in accordance with the Company's Articles of Association and the recommendations of the Code.

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

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

Directors' indemnities and insurance

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

Articles of Association

The powers of the Directors are set out in the Company's Articles of Association which are available on request. The Articles of Association may be changed by special resolution.

Capital Structure

Details of the issued share capital, together with details of shares issued during the year, are set out in note 28. There is one class of ordinary shares which carries no right to fixed income. Each share carries the right to one vote at a general meeting of the Company.

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

Details of employee share schemes are set out in note 32. No votes are cast in respect of the shares held in the Employee Benefit Trust and dividends are waived.

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

The AGM held in 2019 authorised the Directors to allot shares in the capital of the Company within certain limited circumstances and as permitted by the Companies Act. A renewal of this authority will be proposed at the 2020 AGM.

Authority to purchase shares

The Company was authorised at the 2019 AGM to purchase its own shares, within certain limits and as permitted by the Articles of Association. A renewal of this authority will be proposed at the 2020 AGM. No shares were purchased during the year and no shares are held in Treasury.

Greenhouse Gas Emissions Reporting

	Group		UK		FY20		FY19	
	Global tonnes of CO ₂ e FY20	Global tonnes of CO ₂ e FY19	Global tonnes of CO ₂ e FY20	Global tonnes of CO ₂ e FY19	UK	Other	UK	Other
Combustion of fuel and operation of facilities	12,022	12,899	8,468	9,324	70%	30%	72%	28%
Electricity, heat, steam and cooling purchased for own use	1,574	1,697	1,015	1,070	64%	36%	63%	37%
Total	13,596	14,596	9,483	10,394				
Tonnes of CO ₂ e per thousand customers	1.6	1.7	5.4	5.2				

	Group		UK		FY20		FY19	
	KwH FY20	KwH FY19	KwH FY20	KwH FY19	UK	Other	UK	Other
Combustion of fuel and operation of facilities	50,119,440	53,062,709	35,089,025	37,986,426	70%	30%	72%	28%
Electricity, heat, steam and cooling purchased for own use	6,158,729	5,993,395	3,971,866	3,780,844	64%	36%	63%	37%
Total	56,278,169	59,056,104	39,060,891	41,767,270	69%	31%	71%	29%

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

During the year, steps have been taken to reduce energy usage by installing automatic light sensors and replacing office and outside lighting with LED alternatives.

Directors' report

Continued

Significant agreements – change of control

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

Annual General Meeting

The 2020 Annual General Meeting of the Company will be held on 17 July 2020.

Fixed Assets

Capital expenditure on tangible fixed assets amounted to £8.5m (FY19: £9.8m) during the year.

Directors' interests in shares

The beneficial interests of the Directors in the shares of the Company and the options held as at 31 March and 19 May 2020 are set out in the Remuneration report on page 101. None of the Directors serving at the year end had a beneficial interest in the share capital of any subsidiary company.

Substantial Shareholdings

As far as the Directors are aware, no person or company had a beneficial interest in 3% or more of the voting share capital at 31 March and 19 May 2020, except for the following:

Name	As at 31 March 2020		As at 19 May 2020	
	ordinary shares	%	ordinary shares	%
R Harpin	40,553,117	12.1	40,553,137	12.1
Baillie Gifford & Co	17,124,224	5.1	17,124,224	5.1

¹ Total shareholding includes an indirect interest of 9,285 shares

Taxation status

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

By Order of the Board

Anna Maughan

Company Secretary

19 May 2020

Statements of responsibilities

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

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

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

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

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

Disclosure of Information to Auditor

Each of the Directors confirms that:

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

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

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

Website publication

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

Statements of responsibilities

Continued

Directors' responsibility statement

We confirm to the best of our knowledge

- the financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole;
- the Directors' report, together with the Strategic report, which represent the Management Report, include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

By Order of the Board

Richard Harpin
Chief Executive Officer
19 May 2020

David Bower
Chief Financial Officer
19 May 2020

Independent Auditor's report to the members of HomeServe plc

Opinion

In our opinion:

- the financial statements of HomeServe plc (the 'parent company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation

We have audited the financial statements which comprise:

- the Group income statement;
- the Group and parent company statements of comprehensive income;
- the Group and parent company balance sheets;
- the Group and parent company statements of changes in equity;
- the Group and parent company cash flow statements; and
- the related notes 1 to 49.

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

Basis for opinion

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

We are independent of the Group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and parent company for the year are disclosed in note 5 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company.

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

Summary of our audit approach

Key audit matters

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

- carrying value of goodwill;
- carrying value of the new Customer Relationship Management ("CRM") system;
- eLocal acquisition accounting; and
- revenue deferrals.

Within this report, key audit matters are identified as follows



Newly identified



Increased level of risk



Similar level of risk



Decreased level of risk

Materiality

The materiality that we used for the Group financial statements was £7.3 million which was determined on the basis of 5% of profit before tax.

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

Scoping

Consistent with the prior year, we focused our Group audit scope primarily on the following operating segments:

- United Kingdom;
- North America;
- France; and
- Spain.

These operating segments were subject to a full scope audit. The New Markets and Home Experts operating segments were subject to specific audit procedures, with the exception of the Checktrade entity which was subject to a full scope audit.

Significant changes in our approach

As a result of the Group's acquisition of 79% of eLocal, we have identified a new key audit matter in relation to the valuation of eLocal acquisition intangibles and the valuation of the put option over the remaining 21% equity interest.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the directors' statement in note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of the COVID-19 pandemic and Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the directors' plans for future actions in relation to their going concern assessment.

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

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

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

Principal risks and viability statement

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

- the disclosures on pages 28-31 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on page 56 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on pages 47-48 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We are also required to report whether the directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

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

Key audit matters

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

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

Carrying value of goodwill

Key audit matter description

The carrying value of goodwill is £509.9m (2019: £407.9m).

Management's goodwill impairment analysis is completed at an individual cash generating unit ('CGU') basis. The Group's assessment of the carrying value of goodwill is a judgemental process which requires estimates concerning the future cash flows of each cash generating unit and associated discount rates. We identified key audit matters in the following areas:

- the accuracy of the most sensitive assumption, which is the weighted average cost of capital ('WACC') for each CGU used to discount the cash flows within the Group's impairment assessment; and
- the cash flow forecasts used for the Home Experts businesses, Checkatrade, Habitissimo and eLocal. All three are highly sensitive to variations in the short-term cash flow growth assumptions, and the Home Experts business model is most heavily affected by the impact of the COVID-19 pandemic.

As a result of COVID-19, the level of headroom has reduced across the Group. As a result, we identified an increased level of risk in comparison to prior year.

Further detail on the key judgements involved is set out within the Audit and Risk Committee report on page 78, significant accounting policies in note 2, the key sources of estimation uncertainty in note 3 and note 13 to the financial statements.

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

We first understood the Group's process and key controls around the carrying value of goodwill, specifically the Group's review process to assess the accuracy and completeness of key assumptions within the impairment assessment.

We assessed the Group's WACC working with our internal valuations specialists. We benchmarked assumptions to external macro-economic and market data and independently recalculated the WACC rate for each CGU.

We challenged the Group's key assumptions relating to the estimated future cash flows applied to the Home Experts businesses. Our procedures included:

- reviewing the Group's assessment of the potential impact that COVID-19 could have on future cash flows, which assumes lockdown will continue across all operating segments for a period of time, followed by a slow recovery. This included consideration of the performance of each CGU since the COVID-19 pandemic commenced;
- consideration of the potential impact on headroom if the lockdown period is extended, as well as the impact if the recovery is slower than currently anticipated;
- challenging the forecast growth rates applied over the next three years through understanding the key drivers of growth for each CGU; and
- assessing the Group's ability to accurately forecast business performance with reference to historical trading performance.

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

We have reviewed management's carrying value of goodwill disclosures, including the potential impact on headroom under a range of alternative lockdown scenarios.

Key observations

The WACC used by management for each Home Experts CGU was lower than the WACC derived by our internal valuations specialists. We assessed the impact of using our own WACC in management's impairment calculation, noting that it reduced the level of headroom within the Home Experts CGU's, however it did not indicate that an impairment write down was required.

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

We concluded that other key assumptions used within the Group's goodwill impairment assessment were acceptable.

We consider management's carrying value of goodwill disclosures to be reasonable.

Carrying value of the new CRM system

Key audit matter description

The Group is continuing to progress with its implementation of the new CRM system in the UK. The carrying value of the system is £81.8m (2019: £81.8m). In September 2019, the system was classified as available for use and amortisation commenced over its 10 year useful economic life. The system is now being used for front book policies, however the back book migration is scheduled for the next financial year.

The key judgement in relation to the new CRM system is the successful migration of the back book, which underpins the expected future cash flows associated with the benefits case.

In order to support the carrying value of the CRM system, the Group has performed an impairment assessment, which compares the expected value in use of the asset to the current carrying value, including the successful migration of the back book within the next financial year.

Further detail on the key judgements involved is set out within the Audit and Risk Committee report on page 78, significant accounting policies in note 2 and note 14 to the financial statements.

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

We first understood management's process and key controls around the carrying value of the new CRM system, specifically the Group's review process to assess the accuracy and completeness of key assumptions used to determine the expected future cash flows.

We have assessed the progress of the back book migration, which included inquiry with management and review of the key performance indicators being monitored in relation to the data migration. We also reviewed the plausibility of the migration plan for the back book to the extent that migration is needed in order to support the carrying value of the system.

We challenged management's impairment assessment to determine whether the recoverable amount of the asset supports its carrying value as at 31 March 2020, by comparing the consistency of the cash flows and WACC to those used in the carrying value of goodwill assessment.

Key observations

We are satisfied that the progress made in relation to the back book migration and the impairment assessment performed supported the carrying value of the system and therefore no impairment is required.

eLocal acquisition accounting

Key audit matter description

On 26 November 2019, the Group acquired a 79% shareholding in eLocal Holdings LLC for £98.8m. In addition, the Group entered into a put and call option agreement which means they will be required to purchase the remaining 21% equity interest over the next five years.

As part of the transaction a number of acquisition intangibles have been identified in relation to customer relationships, technology and domains. A high level of judgement is required in order to determine the fair value of these assets at the point of acquisition, as well as the fair value of the put option for the remaining 21% equity interest.

Given this is a technically complex area with high levels of judgement, we identified a new key audit matter in relation to:

- the valuation of acquisition intangibles; and
- the valuation of the put and call options over the remaining 21% equity interest.

Further detail on the key judgements involved is set out within the Audit and Risk Committee report on page 78, significant accounting policies in note 2, the associated key judgements involved are set out in the critical accounting judgements and key sources of estimation uncertainty in note 3 and a transaction overview is provided in note 16 to the financial statements.

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

We understood the key controls the Group has in place to manage the risk of inappropriate conclusions being reached within the acquisition accounting assessment.

We challenged the key accounting assumptions, most notably whether the presence of the put and call option over the remaining 21% equity interest constitutes a present ownership interest, as well as the judgement required to identify the split of potential cash payments under the put option between those which should be recognised at the transaction date and those which relate to post combination employee benefit expenses.

We worked with our valuation specialists in order to:

- challenge the methodology used by management in order to identify and fair value the intangibles including the appropriateness of the discount rate used; and
- independently recalculate the fair value of the put and call options

We also assessed the key assumptions within management's forecasts for reasonableness, including assessing whether the forecasts did not include post-acquisition events such as the COVID-19 pandemic.

Key observations

We concurred with the intangible assets identified by management, and the key assumptions used to value the identified assets were within an acceptable range.

Management's put and call option valuation was materially consistent with our independently derived valuation

Revenue deferrals

Key audit matter description

The recognition of revenue requires significant judgement by the Group to determine key assumptions, particularly regarding the level of revenue to defer in order to satisfy the Group's obligations for future claims handling and non-recoverable costs incurred by HomeServe's directly employed operations.

Given the degree of judgement and estimation involved in determining the level of revenue to defer, we also identified that there is a potential for fraud through possible manipulation of this balance.

The total amount of revenue deferred at 31 March 2020 in respect of the Group's future claim handling obligations is £19.1m (2019: £19.4m). The total amount of revenue deferred at 31 March 2020 in respect of the Group's directly employed operations is £18.9m (2019: £20.7m).

The key assumptions used by the Group for claims handling and directly employed operations are the directly employed engineer rate, claims profiles and the average cost per claim, which are based on recent behavioural experience.

Further detail on the Group's revenue recognition policy is set out within the Audit and Risk Committee report on page 78, significant accounting policies in note 2 and the associated key judgements involved are set out in the critical accounting judgements and key sources of estimation uncertainty in note 3 to the financial statements.

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

We first understood the Group's process and key controls around the revenue deferrals. Specifically, controls that the Group has in place to manage the risk of inappropriate assumptions being used within the revenue deferrals.

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

We challenged the key inputs and assumptions used in the revenue deferral calculations. As part of this, we specifically considered whether any adjustments were required to revenue deferrals in light of COVID-19 through review of current behavioural experience during the lockdown period, as well as forecast volumes during the recovery period:

- For cost per claim we compared budgeted costs to previous actual behaviour;
- We re-calculated directly employed engineer rates based on previous claims data; and
- For claims profiles we substantively tested policy information and agreed underwriter rates to third party information.

We substantively tested the source data to third party information.

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

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

Key observations

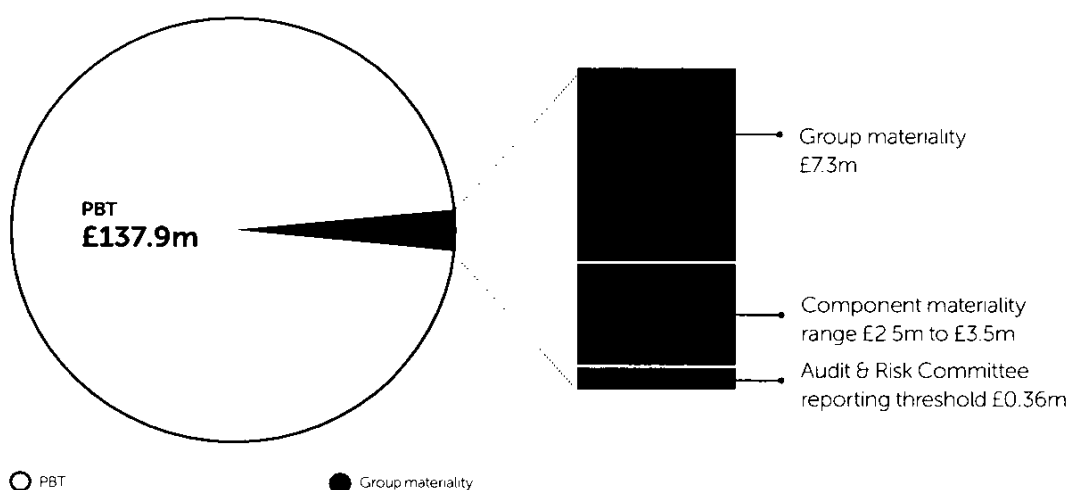
We found that the key assumptions used in the revenue deferrals were reasonable.

Our application of materiality

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

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

	Group financial statements	Parent company financial statements
Materiality	£7.3m (2019: £6.5m)	£2.5m (2019: £4.9m)
Basis for determining materiality	5% (2019: 5%) of profit before tax.	Parent company materiality equates to 0.6% (2019: 1.2%) of net assets, which is capped at 50% of Group performance materiality. The prior year materiality was capped at 75% of Group materiality. In the current year we determined 50% of Group performance materiality to be a more appropriate basis.
Rationale for the benchmark applied	We determined materiality using profit before tax as we considered this to be the most appropriate measure to assess the performance of the Group. This is because profit based measures are the financial measures most relevant to users of the financial statements.	We determined materiality using the equity balance. The Company is the parent company for the Group and is not a trading entity, hence we considered this to be the most appropriate measure for the Company.



Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%). In determining performance materiality, we considered the following factors:

- The level of decentralisation and autonomy displayed by the operating segments of the Group;
- The level of growth within the Group including the number of acquisitions completed during the year; and
- The nature, volume and size of uncorrected misstatements in the previous year.

Error reporting threshold

We agreed with the Audit & Risk Committee that we would report to the Committee all audit differences in excess of £360,000 (2019: £323,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit & Risk Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

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

These operating segments were subject to a full scope audit. The New Markets and Home Experts segments were subject to specific audit procedures, with the exception of Checktrade which was subject to a full scope audit.

The UK, North America, France and Spain segments and the Checktrade entity account for 97% (2019: 99%) of the Group's revenue and 100% (2019: 100%) of the Group's profit before tax from profit-making segments (there was a loss for the year in the New Markets and Home Experts segments). They were also selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. Our audit work at the four segments was executed at levels of materiality ranging from £2.5m to £3.5m (2019: £2.9m to £4.5m).

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

Working with other auditors

We have previously followed a programme of planned visits in which at least two senior members of the Group audit team physically visited the UK, North America, France and Spain at least twice a year.

However as a result of COVID-19, we were unable to complete our fieldwork component visits, nor were we able to complete our planning visit to France. As a result, we increased the frequency of our communications with each component to monitor progress. At least two senior members attended each component audit close meeting, which was held via video conference. In the absence of fieldwork component visits, we used video conferencing to review component audit documentation.

Other information

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

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

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

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

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

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

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit & Risk Committee reporting** – the section describing the work of the Audit & Risk Committee does not appropriately address matters communicated by us to the audit & risk committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following.

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets,
- results of our enquiries of management, internal audit and the Audit & Risk Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including significant component audit teams and involving relevant internal specialists, including tax, valuations, pensions and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in relation to revenue deferrals. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act, Listing Rules, UK Corporate Governance Code and local tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included compliance with Financial Conduct Authority regulation for the UK operating segment and compliance with local legislation for the overseas operating segments.

Audit response to risks identified

As a result of performing the above, we identified revenue deferrals as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

Our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit & Risk Committee in-house and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing regulatory correspondence with the Financial Conduct Authority;
- obtained an understanding of provisions and held discussions with management to understand the basis of recognition or non-recognition of tax provisions; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

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

We have nothing to report in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit & Risk Committee, we were appointed by the Board of Directors on 1 August 2002 to audit the financial statements for the year ending 31 March 2003 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 March 2003 to 31 March 2020.

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

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

Use of our report

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

Peter Birch FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

Leeds, UK

19 May 2020

Mrs S's house

March 17 2020

“ It was a leak. My husband tried to fix it by himself by placing a bucket under the sink, as I wasn't sure HomeServe would come over. By the time I was hanging up the phone, an engineer just called me. He arrived within a half-hour: we couldn't believe it! He was very professional and mindful regarding the current sanitary conditions. We didn't have any contact, but it didn't prevent him from being very friendly. He made us ventilate our home upon arrival and let us know we wouldn't shake hands. He talked to my husband from a certain distance and that was very reassuring.

What struck us the most in the end, is that the engineer seemed to be delighted to be here, to do his job and help us. We had the feeling he was a very skilled craftsman and that we knew him. We were at ease and that was very valuable especially during this period. We wanted to express our heartfelt thanks to everyone and to your engineer in particular, who did a good job with great kindness.

”

Group income statement

Year ended 31 March 2020

	Notes	2020 £m	2019 ¹ £m
Continuing operations			
Revenue	4	1,132.3	1,003.6
Operating costs	5	(971.6)	(850.7)
Share of results of equity accounted investments	18	(2.1)	(0.3)
Operating profit		158.6	152.6
Investment income	8	0.5	0.2
Finance costs	9	(21.2)	(13.3)
Adjusted profit before tax		181.0	161.7
Amortisation of acquisition intangibles	5	(35.5)	(26.8)
Exceptional items	7	(7.6)	4.6
Profit before tax		137.9	139.5
Tax	10	(32.1)	(31.2)
Profit for the year		105.8	108.3
Attributable to:			
Equity holders of the parent		106.0	108.5
Non-controlling interests		(0.2)	(0.2)
		105.8	108.3
Dividends per share, paid and proposed	11	23.6p	21.4p
Earnings per share			
Basic	12	31.7p	32.7p
Diluted	12	31.5p	32.3p

¹ The Group's results are being reported under IFRS 16 for the first time in 2020 following the mandatory adoption of the standards from 1 April 2019. In accordance with the transitional provisions of IFRS 16, comparatives have not been restated. See note 2.

Group statement of comprehensive income

Year ended 31 March 2020

	Notes	2020 £m	2019 £m
Profit for the year		105.8	108.3
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	33	1.6	(0.4)
Deferred tax (charge)/credit relating to actuarial re-measurements	10	(0.3)	0.1
Fair value (loss)/gain on "fair value through other comprehensive income" (FVTOCI) investment in equity instruments	17	(3.7)	0.7
Deferred tax credit/(charge) relating to fair value gain on FVTOCI investment in equity instruments	10	0.8	(0.2)
		(1.6)	0.2
Items that may be reclassified subsequently to profit and loss:			
Exchange movements on translation of foreign operations		14.1	6.8
		14.1	6.8
Total other comprehensive income		12.5	7.0
Total comprehensive income for the year		118.3	115.3
Attributable to:			
Equity holders of the parent		118.5	115.5
Non-controlling interests		(0.2)	(0.2)
		118.3	115.3

Group balance sheet

31 March 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Goodwill	13	509.9	407.9
Other intangible assets	14	497.1	418.6
Contract costs	4	16.8	27.5
Right-of-use assets	26	56.8	—
Property, plant and equipment	15	42.0	42.8
Equity accounted investments	18	4.0	10.6
Other investments	17	5.6	9.2
Deferred tax assets	10	6.0	7.4
Retirement benefit assets	33	10.3	6.4
		1,148.5	930.4
Current assets			
Inventories	19	7.9	7.0
Trade and other receivables	20	495.4	424.6
Cash and cash equivalents	21	131.2	72.6
		634.5	504.2
Total assets		1,783.0	1,434.6
Current liabilities			
Trade and other payables	22	(410.6)	(382.3)
Bank and other loans	25	(40.3)	(39.7)
Current tax liabilities		(5.4)	(6.0)
Lease liabilities	25	(14.1)	(0.5)
Provisions	24	(2.0)	(5.7)
		(472.4)	(434.2)
Net current assets		162.1	70.0
Non-current liabilities			
Bank and other loans	25	(540.6)	(336.4)
Other financial liabilities	23	(52.3)	(23.3)
Deferred tax liabilities	10	(26.2)	(26.4)
Lease liabilities	25	(45.2)	(0.7)
		(664.3)	(386.8)
Total liabilities		(1,136.7)	(821.0)
Net assets		646.3	613.6
Equity			
Share capital	28	9.0	9.0
Share premium account	29	189.3	180.7
Share incentive reserve	29	21.9	23.3
Currency translation reserve	29	37.0	22.9
Investment revaluation reserve	29	(0.6)	2.3
Other reserves	29	79.2	82.2
Retained earnings		299.9	293.0
Attributable to equity holders of the parent		635.7	613.4
Non-controlling interests	30	10.6	0.2
Total equity		646.3	613.6

The financial statements were approved by the Board of Directors and authorised for issue on 19 May 2020. They were signed on its behalf by:

David Bower
Chief Financial Officer
19 May 2020

Group statement of changes in equity

Year ended 31 March 2020

	Share capital £m	Share premium account £m	Share incentive reserve £m	Currency translation reserve £m	Investment revaluation reserve £m	Other reserves ¹ £m	Retained earnings £m	Attributable to equity holders of the parent £m	Non- controlling interests £m	Total equity £m
Balance at 1 April 2019	9.0	180.7	23.3	22.9	2.3	82.2	293.0	613.4	0.2	613.6
Profit for the year	—	—	—	—	—	—	106.0	106.0	(0.2)	105.8
Other comprehensive income for the year	—	—	—	14.1	(2.9)	—	1.3	12.5	—	12.5
Total comprehensive income	—	—	—	14.1	(2.9)	—	107.3	118.5	(0.2)	118.3
Dividends paid (note 11)	—	—	—	—	—	—	(73.5)	(73.5)	—	(73.5)
Issue of share capital	—	8.6	—	—	—	—	—	8.6	—	8.6
Purchase of own shares	—	—	—	—	—	(3.0)	—	(3.0)	—	(3.0)
Share-based payments	—	—	7.2	—	—	—	—	7.2	—	7.2
Share options exercised	—	—	(8.6)	—	—	—	0.1	(8.5)	—	(8.5)
Tax on exercised share options (note 10)	—	—	—	—	—	—	3.0	3.0	—	3.0
Deferred tax on share options (note 10)	—	—	—	—	—	—	(1.2)	(1.2)	—	(1.2)
Changes in non-controlling interests	—	—	—	—	—	—	—	—	10.6	10.6
Obligations under put options (note 16)	—	—	—	—	—	—	(28.8)	(28.8)	—	(28.8)
Balance at 31 March 2020	9.0	189.3	21.9	37.0	(0.6)	79.2	299.9	635.7	10.6	646.3

Year ended 31 March 2019

	Share capital £m	Share premium account £m	Share incentive reserve £m	Currency translation reserve £m	Investment revaluation reserve £m	Other reserves ¹ £m	Retained earnings £m	Attributable to equity holders of the parent £m	Non- controlling interests £m	Total equity £m
Balance at 1 April 2018	8.9	171.8	22.1	16.1	1.8	82.2	248.1	551.0	0.4	551.4
Opening adjustment for the impact of of IFRS 15	—	—	—	—	—	—	(2.1)	(2.1)	—	(2.1)
Opening balance under IFRS 15	8.9	171.8	22.1	16.1	1.8	82.2	246.0	548.9	0.4	549.3
Profit for the year	—	—	—	—	—	—	108.5	108.5	(0.2)	108.3
Other comprehensive income for the year	—	—	—	6.8	0.5	—	(0.3)	7.0	—	7.0
Total comprehensive income	—	—	—	6.8	0.5	—	108.2	115.5	(0.2)	115.3
Dividends paid (note 11)	—	—	—	—	—	—	(65.0)	(65.0)	—	(65.0)
Issue of share capital	0.1	8.9	—	—	—	—	—	9.0	—	9.0
Share-based payments	—	—	8.8	—	—	—	—	8.8	—	8.8
Share options exercised	—	—	(7.6)	—	—	—	0.8	(6.8)	—	(6.8)
Tax on exercised share options (note 10)	—	—	—	—	—	—	2.7	2.7	—	2.7
Deferred tax on share options (note 10)	—	—	—	—	—	—	0.3	0.3	—	0.3
Balance at 31 March 2019	9.0	180.7	23.3	22.9	2.3	82.2	293.0	613.4	0.2	613.6

¹ Other reserves comprise the Merger, Own shares and Capital redemption reserves. Full details of these reserves are included in Note 29.

Group cash flow statement

Year ended 31 March 2020

	Notes	2020 £m	2019 £m
Net cash inflow from operating activities	31	192.0	162.0
Investing activities			
Interest received		0.5	0.2
Proceeds on disposal of fixed assets		0.5	0.3
Purchases of intangible assets		(74.3)	(99.1)
Contract costs		(3.9)	(7.9)
Purchases of property, plant and equipment		(8.2)	(9.0)
Disposal of equity accounted investments	18	8.4	—
Acquisition of equity accounted investments		—	(5.4)
Acquisition of subsidiaries	16	(140.6)	(37.5)
Net cash used in investing activities		(217.6)	(158.4)
Financing activities			
Dividends paid	11	(73.5)	(65.0)
Repayment of lease principal		(12.4)	(0.6)
Acquisition of non-controlling interests	30	(7.7)	—
Purchase of own shares		(3.0)	—
Proceeds on issue of share capital		0.1	2.2
New bank and other loans raised		—	174.2
Costs associated with new bank and other loans raised		(0.8)	(1.6)
Movement in bank and other loans		182.6	(98.9)
Net cash generated by financing activities		85.3	10.3
Net increase in cash and cash equivalents		59.7	13.9
Cash and cash equivalents at beginning of year		72.6	57.8
Impact of foreign exchange rate changes		(1.1)	0.9
Cash and cash equivalents at end of year		131.2	72.6

Notes to financial statements

Year ended 31 March 2020

1. General information

HomeServe plc (the 'Company') is a public company, limited by shares and incorporated in England and Wales under the Companies Act. The address of the registered office is Cable Drive, Walsall, WS2 7BN.

These financial statements are presented in pounds sterling. Foreign operations are consolidated in accordance with the policies set out in note 2.

There have been no post balance sheet events identified since the year end except as explained in note 34.

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRSs, adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation. The financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair value at the end of each reporting period as explained in note 27.

Adoption of new or revised standards

The following accounting standards, interpretations and amendments have been adopted in the year:

IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features and Negative Compensation
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to IFRSs	2015-2017 Cycle

None of the items listed above have had any material impact on the amounts reported in this consolidated set of financial statements. The impact of IFRS 16 Leases, is discussed under 'Changes in accounting policies' and 'Financial impact of adoption of IFRS 16' below.

Changes in accounting policies

The Group has adopted IFRS 16 with effect from 1 April 2019. In accordance with the transitional provisions of the standard, comparatives have not been restated. The impacted accounting policies for the years ended 31 March 2020 and 31 March 2019 are outlined below. All other accounting policies of the Group are set out in the 'Other Accounting Policies' section of this note.

IFRS 16 Leases

IFRS 16 replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for annual periods beginning on or after 1 January 2019. The Group has adopted IFRS 16 using the modified retrospective approach with a date of initial application of 1 April 2019. Comparative information has not been restated.

Impact on lessee accounting

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17. With the exception of low value assets (below £4k) and short-term leases (with a term of 12 months or less), the Group now recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments. The depreciation of the right-of-use asset and interest charges on the outstanding lease liability replace the IAS 17 straight-line rental expense previously booked to operating costs. Any lease incentives are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16 the Group presents repayments of lease principal within financing activities and interest payments on lease liabilities within operating activities in the consolidated cash flow statement for leases that are on balance sheet. Under IAS 17 all operating lease payments were presented as operating cash outflows.

Right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

The Group is not party to any material leases where it acts as a lessor, but does contract as lessee for a significant number of property and vehicle leases, which aggregate to a material commitment.

Approach to transition and practical expedients adopted

In respect of those leases the Group previously treated as operating leases, the Group has elected to measure right-of-use assets using the approach set out in IFRS 16.C8(b)(ii). Under this approach right-of-use assets are calculated at an amount equal to the lease liability, adjusted by any prepaid or accrued lease payments relating to the lease that were recognised in the consolidated balance sheet at 31 March 2019.

At 1 April 2019 right-of-use assets of £52.8m and lease liabilities of £53.8m, inclusive of grandfathered finance lease assets and liabilities of £1.7m and £1.2m respectively, were recognised on the balance sheet. The Group's weighted average incremental borrowing rate applied to lease liabilities as at 1 April 2019 was 2.5%.

Notes to financial statements

Year ended 31 March 2020

2. Significant accounting policies (continued)

IFRS 16 Leases (continued)

Approach to transition and practical expedients adopted (continued)

The table below presents a reconciliation from IAS 17 operating lease commitments disclosed at 31 March 2019 to IFRS 16 lease liabilities recognised at 1 April 2019

	£m
Operating lease commitments disclosed under IAS 17 at 31 March 2019	56.0
Finance lease liabilities recognised under IAS 17 at 31 March 2019	1.2
Discounting	(4.4)
Impact of lease term reassessments under IFRS 16 vs IAS 17	2.0
Short-term and low value lease commitments expensed through operating costs under IFRS 16	(0.6)
Other movements	(0.4)
IFRS 16 lease liabilities recognised at 1 April 2019	53.8

The complete impact on the consolidated income statement during the year ended 31 March 2020 is presented under 'Financial impact of adoption of IFRS 16' below

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is, or contains, a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or modified before 1 April 2019.

As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients

- The Group has not made any adjustments on transition for leases for which the underlying asset is of low value (as described in paragraphs B3 – B8 of IFRS 16),
- The Group has adjusted the carrying amount of right-of-use assets at 1 April 2019 by the carrying amount of onerous lease provisions at 31 March 2019 instead of performing impairment reviews under IAS 36.

Details of the Group's accounting policies under IFRS 16 are set out below, followed by a presentation of the financial impact of adopting IFRS 16. Judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined

Accounting policy for leases (effective 1 April 2019)

The Group assesses whether a contract is, or contains, a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (where the value of the asset is below £4k). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease.

Lease liabilities

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses a lease specific incremental borrowing rate. Lease payments included in the measurement of the lease liability comprise

- fixed lease payments (including in substance fixed payments), less any lease incentives;
- fixed service costs associated with the Group's property and vehicle lease portfolios (as the Group has elected to apply the expedient available under paragraph 15 of IFRS 16 not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement);
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date,
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options, and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Lease liabilities are subsequently measured at amortised cost using the effective interest method by increasing the carrying amount to reflect interest on the lease liability and by reducing the carrying amount to reflect the lease payments made. The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is re-measured by discounting the revised lease payments using the initial discount rate (unless the change in lease payments is due to a change in a floating interest rate, in which case a revised discount rate is used);
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented

Right-of-use assets

Right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at, or before, the commencement date and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. Right-of-use assets are depreciated over the shorter period of the lease term and the useful life of the underlying asset. Depreciation begins at the commencement date of the lease.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset.

Variable rents

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included in the line "Other operating expenses" in the income statement.

Leasing (applicable up to 31 March 2019)

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

Assets held under finance leases are recognised as assets of the Group at their fair value, or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease, and depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability.

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

Financial impact of adoption of IFRS 16

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. Provisions for onerous lease contracts have been derecognised and operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right-of-use assets and lease liabilities.

The following abridged statements summarise the impact of adopting IFRS 16 on the Group's Consolidated Income Statement, Balance Sheet and Cash Flow Statement for the year ended 31 March 2020.

Notes to financial statements

Year ended 31 March 2020

2. Significant accounting policies (continued)

Financial impact of adoption of IFRS 16 (continued)

Impact on the consolidated income statement

	Ref	As reported 31 March 2020 £m	IFRS 16 adjustments £m	Amounts without adoption £m
Continuing operations				
Revenue		1,132.3	—	1,132.3
Operating costs	i)	(971.6)	(0.2)	(971.4)
Others		(2.1)	—	(2.1)
Operating profit		158.6	(0.2)	158.8
Investment income		0.5	—	0.5
Finance costs	i)	(21.2)	(1.5)	(19.7)
Adjusted profit before tax		181.0	(1.7)	182.7
Others		(43.1)	—	(43.1)
Profit before tax		137.9	(1.7)	139.6
Tax	ii)	(32.1)	0.4	(32.5)
Profit for the year		105.8	(1.3)	107.1
Earnings per share				
Basic		31.7p	(0.4)p	32.1p
Diluted		31.5p	(0.4)p	31.9p

Impact on the consolidated balance sheet

	Ref	As reported 31 March 2020 £m	IFRS 16 adjustments £m	Amounts without adoption £m
Non-current assets				
Right-of-use assets	iii)	56.8	56.8	—
Others	iv)	1,091.7	(1.7)	1,093.4
		1,148.5	55.1	1,093.4
Current assets	ii), iv)	634.5	0.1	634.4
Total assets		1,783.0	55.2	1,727.8
Current liabilities				
Lease liabilities	iii)	(14.1)	(13.7)	(0.4)
Others	iv)	(458.3)	1.7	(460.0)
		(472.4)	(12.0)	(460.4)
Net current assets		162.1	(11.9)	174.0
Non-current liabilities				
Lease liabilities	iii)	(45.2)	(44.5)	(0.7)
Others	ii)	(619.1)	—	(619.1)
		(664.3)	(44.5)	(619.8)
Total liabilities		(1,136.7)	(56.5)	(1,080.2)
Net assets		646.3	(1.3)	647.6
Equity				
Retained earnings		299.9	(1.3)	301.2
Others		346.4	—	346.4
		646.3	(1.3)	647.6

Impact on the consolidated cash flow statement

	Ref	As reported 31 March 2020 £m	IFRS 16 adjustments £m	Amounts without adoption £m
Operating profit		158.6	(0.2)	158.8
Adjustments for				
Depreciation of property, plant and equipment	iv)	9.3	(0.5)	9.8
Depreciation of right-of-use assets	v)	14.2	14.2	—
Others		58.3	—	58.3
Cash generated by operations		240.4	13.5	226.9
Income taxes paid		(30.2)	—	(30.2)
Interest paid (inclusive of payments on lease liabilities)	v)	(18.2)	(1.5)	(16.7)
Net cash inflow from operating activities		192.0	12.0	180.0
Net cash used in investing activities		(217.6)	—	(217.6)
Financing activities				
Repayment of lease principal	v)	(12.4)	(12.0)	(0.4)
Others		97.7	—	97.7
Net cash generated by financing activities		85.3	(12.0)	97.3
Net increase in cash and cash equivalents		59.7	—	59.7

References

- Historically all rental charges were booked to operating costs on a straight-line basis. Under IFRS 16 rental costs for all leases, other than those with an initial term of below 12 months and those of assets of approximately below £4k in value, as new, are recorded in the income statement as depreciation of right-of-use assets, in operating costs, and interest charges on lease liabilities, in financing costs. The impact of this change in accounting treatment during the period was to increase operating costs by £0.2m and increase finance costs by £1.5m.
- Current tax impacts of changes detailed under i) above as well as deferred tax impacts in jurisdictions where the available deductions for tax do not align with the accounting charge in the income statement for the period.
- Under IAS 17 lessees did not record assets and commitments associated with operating lease contracts on the balance sheet. IFRS 16 removes the distinction between operating and finance leases for lessees and requires that they recognise right-of-use assets and lease liabilities for all lease contracts. At 31 March 2020 this resulted in the recognition of right-of-use assets of £56.8m and lease liabilities of £59.3m.
- Rent prepayments, deferred rent and IAS 17 finance lease assets of £0.3m, £1.3m and £1.7m respectively were set against opening right-of-use assets on transition. Additionally onerous lease balances of £0.4m were transferred into the opening value of right-of-use assets at 1 April 2019.
- Historically all cash flows associated with operating leases were presented as operating cash flows. Under IFRS 16 repayments of lease principal are classified as financing cash flows. IAS 7 provides entities with an accounting policy choice as to whether they classify interest paid as an operating or financing cash flow. HomeServe's policy is to classify all interest paid within operating cash flows and consequently interest paid on lease liabilities recorded under IFRS 16 will be classified as such.

Depreciation of right-of-use assets is added back to operating profit as a non-cash movement in the consolidated cash flow statement, in a similar manner to depreciation on property, plant and equipment or amortisation on intangible assets.

Standards in issue but not yet effective

At the date of authorisation of these financial statements the following Standards and Interpretations, which have not been applied in these financial statements, were in issue but not yet effective (not all of which have been endorsed by the EU):

IFRS 17	Insurance Contracts
Amendments to IFRS 3	Definition of a Business
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1 and IAS 8	Definition of Material
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

The Directors do not expect that the adoption of the Standards and Interpretations listed above will have a material impact on the financial statements of the Group in future years.

Notes to financial statements

Year ended 31 March 2020

2. Significant accounting policies (continued)

Going concern

The Group's business activities, together with the factors likely to affect its future development, including the potential impacts of COVID-19 and Brexit, performance and position are set out in the Strategic report

The Directors have reviewed the Group's budget, forecast and cash flows for 2020 and beyond, and concluded that they are in line with their expectations with regards to the Group's strategy and future growth plans. In addition the Directors have reviewed the Group's position in respect of material uncertainties and have concluded that there are no items that would affect going concern or that should be separately disclosed

The Directors have concluded that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements

Other accounting policies

The following accounting policies applied by the Group in these consolidated financial statements are the same as those applied by the Group in its consolidated financial statements as at, and for the year ended, 31 March 2019

Basis of consolidation

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

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

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

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

Revenue recognition

The Group records revenue in accordance with the five-step recognition model outlined in IFRS 15

- 1) Identify the contract with the customer
- 2) Identify the performance obligations in the contract
- 3) Determine the transaction price
- 4) Allocate the transaction price to the performance obligations
- 5) Recognise revenue when (or as) each performance obligation is satisfied

Revenue is recognised, net of discounts, VAT, Insurance Premium Tax and other sales related taxes, either at the point in time a performance obligation has been satisfied or over time as control of the asset associated with the performance obligation is transferred to the customer

For all contracts identified, the Group determines if the arrangement with the customer creates enforceable rights and obligations. For contracts with multiple components to be delivered, such as those with underwriters to sell policies on behalf of the underwriter as well as deliver claims handling and administration services, management applies judgement to consider whether those promised goods and services are

- i) distinct – to be accounted for as separate performance obligations;
- ii) not distinct – to be combined with other promised goods or services until a bundle is identified that is distinct; or
- iii) part of a series of distinct goods and services that are substantially the same and have the same pattern of transfer to the customer

At contract inception the total transaction price is estimated, being the amount to which the Group expects to be entitled and has present enforceable rights to under the contract. Where applicable, this includes management's best estimate of any variable consideration to be included in the transaction price based on the expected value or most likely amount approach, and only to the extent that it is highly probable that no significant revenue reversal will occur

Once the total transaction price is determined, the Group allocates this to the identified performance obligations in proportion to their relative standalone selling prices and recognises revenue when (or as) those performance obligations are satisfied.

Where available, observable prices of goods or services are utilised, when that good or service is sold separately, to similar customers in similar circumstances. Where a standalone selling price is not directly observable the Group applies judgment to determine an appropriate estimated standalone selling price, typically using an expected cost plus margin, adjusted market assessment or residual approach

Variable consideration is allocated to an entire contract or a specific part of a contract depending on

- whether allocating the variable amount entirely to part of the contract depicts the amount of consideration the Group expects to be entitled to in exchange for transferring the promised good or service to the customer; or
- the terms of the variable payment relate specifically to the satisfaction of an individual performance obligation

The Group's variable consideration primarily relates to intermediary commissions received on contracts with underwriters to sell policies and provide claims handling and administration services. Amounts are typically allocated to the entire contract.

Discounts are allocated proportionally across all performance obligations in the contract unless directly observable evidence exists that the discount relates to one or more, but not all, performance obligations.

For each performance obligation, the Group determines if revenue will be recognised over time or at a point in time. For each performance obligation to be recognised over time, the Group applies a revenue recognition method that faithfully depicts the Group's performance in transferring control of the goods or services to the customer. This decision requires assessment of the nature of the goods or services that the Group has promised to transfer to the customer. The Group applies the relevant output or input method, typically based on the expected profile of the deferral event (for example claims handling cost through the policy term or time elapsed).

Revenue by category

The Group disaggregates revenue from contracts with customers between Net Policy Income, Repair Income, Home Experts, HVAC and Other as management believe this best depicts how the nature, amount, timing and uncertainty of the Group's revenue and cash flows are affected by economic factors. The following table outlines the principal activities from which the Group derives revenue and how it is recognised.

Revenue stream	Nature and timing of satisfaction of performance obligations	Significant payment terms
Membership: Net policy income – Intermediary commissions	<p>Includes commissions received for the obligation to sell policies, handle claims and provide administration services for underwriters. The Group satisfies its obligation to sell policies over time, recognising revenue as each policyholder is contracted on behalf of the Group's customers, the underwriters.</p> <p>The transaction prices of the Group's arrangements with underwriters are entirely variable and measured based on the commission due to the Group for the number of policies sold, net of a refund liability. This refund liability reflects management's best estimate of mid-term policy cancellations ensuring that a significant reversal of revenue will not arise in the future (see note 3).</p> <p>Claims handling and administration service obligations are satisfied over the term of a policy, which is typically 12 months. The portion of the total transaction price allocated to these performance obligations is deferred, as a deferred income contract liability, and recognised as revenue over the profile of claims throughout the policy term.</p> <p>The determination of the amount of transaction price to allocate to claims handling and administration services takes account of the expected numbers of claims and the estimated cost of handling those claims, which are validated through historic experience of actual costs, as well as incorporating an appropriate profit margin for the service provided to the underwriter (see note 3).</p> <p>Revenue associated with the commissions received for the obligation to sell policies is allocated using the residual method at the point of policy inception or renewal.</p> <p>Where the Group's role on behalf of the underwriter is only as an intermediary in the cash collection process, such amounts are not included in revenue. Consequently, net policy income consists of only a component of the overall policy price, representing the commission receivable for the services the Group provides to the underwriter, stated net of sales related taxes.</p>	Billed and paid over the term of the contract
Membership: Net policy income – Home assistance	Includes arrangements whereby the Group contracts directly with the end user to provide home assistance services (such as repair network access, emergency assistance and non-urgent engineer visits). Revenue is recognised rateably over the life of the member's contract.	Billed and paid over the term of the contract
Membership: Repair income	Includes repair services provided to third parties, including underwriters and insurance companies, subject to separate contractual arrangements. Revenue is recognised over time as each repair job is completed.	Billed and paid over the term of the contract with the relevant third party
Home Experts – Web and directory	Includes website subscriptions and directory advertising fees from contracted members (trades). For website subscriptions revenue is recognised evenly over the contractual term, for directory membership fees revenue is recognised as each directory is delivered throughout the contractual term.	Billed and paid over the term of the contract

Notes to financial statements

Year ended 31 March 2020

2. Significant accounting policies (continued)

Other accounting policies (continued)

Revenue stream	Nature and timing of satisfaction of performance obligations	Significant payment terms
Home Experts – Lead generation	Includes commissions received for the provision of job leads to trades. Revenue is recognised at the point in time a lead is transferred.	Billed and paid as leads are delivered
HVAC	Includes the provision of installation services at the point in time the installation or service is complete.	Billed and paid upon completion of the installation
Other	Principally includes services provided to customers who do not hold policies. Revenue is recognised at the point in time the service is complete	Billed and paid following the performance of the services provided

As a result of the contracts which the Group enters into with its customers, the following assets and liabilities are recognised on the Group's balance sheet:

- Assets generated from the capitalisation of costs to obtain a contract
- Trade receivables (see financial instruments accounting policies below)
- Accrued income
- *Deferred income*

Capitalisation of costs to obtain a contract

The incremental costs of obtaining a contract with the Group's direct customers are recognised as an asset if the Group expects to recover them. Primarily, such costs relate to fees payable to Affinity Partners or other third parties authorised to enter into new contracts on behalf of a Group entity. Only fees which are directly related to acquiring contracts with the Group's direct customers are capitalised as incremental contract costs under IFRS 15.

Accrued and deferred income

Where payments made are greater than the revenue recognised at the period end date, the Group recognises a *deferred income* contract liability for this difference. Where payments made are less than the revenue recognised at the period end date, the Group recognises an accrued income contract asset for this difference.

Marketing expenses

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

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

Foreign currencies

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

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

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

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

Operating profit

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

Exceptional items

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their nature, size or incidence.

Retirement benefit costs

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

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

Past service costs are recognised in the income statement in the period of scheme amendment, curtailment or when the related restructuring costs or termination benefits are recognised, if earlier. Net interest is calculated by applying a discount rate to the net defined benefit liability or asset.

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

Taxation

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

Any tax currently payable is based on taxable profit for the year along with a small number of provisions in relation to open tax positions. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

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

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

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

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

Business combinations

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

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

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

Notes to financial statements

Year ended 31 March 2020

2. Significant accounting policies (continued)

Business combinations (continued)

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

Goodwill

Goodwill arising in a business combination is recognised at cost as an asset at the date control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Group's previously held equity interest in the acquiree, if any, over the net amounts of identifiable assets acquired and liabilities assumed at the acquisition date. The interest of the non-controlling shareholders in the acquiree may initially be measured either at fair value or at the non-controlling shareholders' proportion of the net fair value of the identifiable assets acquired, liabilities and contingent liabilities assumed. The choice of measurement basis is made on an acquisition-by-acquisition basis.

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

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

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

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

Intangible assets

Acquisition intangible assets

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

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

Other acquired intangibles include acquired brands recorded at fair value using the relief from royalty valuation method and technology assets recorded at fair value using a replacement cost approach. Other acquired intangibles are amortised over the period over which the assets are reasonably expected to transfer economic benefits to the Group, on a straight-line basis over their estimated useful lives, which are in the range of 8-11 years.

Other intangible assets

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

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

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

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

Property, plant and equipment

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

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Interests in equity accounted investments

The results and assets and liabilities of associates and joint ventures are incorporated into these financial statements using the equity method of accounting. Under the equity method, investments are initially recognised in the consolidated balance sheet at cost and adjusted thereafter to recognise the Group's share of the profit and loss and other comprehensive income of the investee. If the Group's share of the profit or loss exceeds the Group's interest in the investee, the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee.

On acquisition of equity accounted investment interests, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included in the carrying amount of the investment. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment.

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

Inventories

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are discounted to present value, using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability. The amortisation of the discount is recognised as a finance cost.

Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

Financial instruments

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

Notes to financial statements

Year ended 31 March 2020

2. Significant accounting policies (continued)

Financial instruments (continued)

Financial assets are classified, at initial recognition, and subsequently measured at amortised cost, Fair Value through Other Comprehensive Income (FVTOCI) or Fair Value through Profit or Loss (FVTPL). The classification is based on two criteria

- the Group's business model for managing the assets; and
- whether the instruments' contractual cash flows represent "Solely Payments of Principal and Interest" on the principal amount outstanding (the "SPPI criterion").

Trade receivables

Trade receivables do not carry any interest and are stated at amortised cost, reduced by appropriate allowances for estimated irrecoverable amounts, as the business model of the Group is to collect contractual cash flows and the debt meets the SPPI criterion. They are recognised when the Group's right to consideration is only conditional on the passage of time. Allowances incorporate an expectation of life-time credit losses from initial recognition and are determined using an expected credit loss approach

Cash and cash equivalents

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

Other investments

At each balance sheet date the Group conducts a fair value assessment of its investment, the difference between the fair value and carrying value is charged or credited to the Statement of Comprehensive Income accordingly and held in the investment revaluation reserve. On transition to IFRS 9 the Group designated its other investment as held at FVTOCI due to its intention to hold the investment for long-term strategic purposes.

Financial liabilities and equity

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

Borrowings

Interest-bearing loans and overdrafts are stated at amortised cost and are recorded at the notional amount of the proceeds received, net of direct issue costs. Interest-bearing loans are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis

Trade payables

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

Equity instruments

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

'Put' options over the equity of subsidiary companies

The potential cash payments related to put options issued by the Group over the equity of subsidiary companies are accounted for as financial liabilities. The amounts that may become payable under the option on exercise are initially recognised at the present value of the expected gross obligation with the corresponding entry being recognised in retained earnings. Such options are subsequently measured at amortised cost, using the effective interest rate method, in order to accrete the liability up to the amount payable under the option at the date at which it first becomes exercisable. The charge arising is recorded as a financing cost. The present value of the expected gross obligation is reassessed at the end of each reporting period and any changes are recorded in the income statement at the end of each reporting period. In the event that the option expires unexercised, the liability will be derecognised with a corresponding adjustment to retained earnings.

Other 'put' and 'call' options

Other put and call options are recognised at fair value with any associated benefit being recognised directly in the income statement

Forward contracts and hedge accounting

The Group enters into derivative transactions with a view to managing currency risks associated with financing acquisitive activities. Forward contracts used by the Group are stated at fair value on initial recognition and at subsequent balance sheet dates. The fair values of forward contracts are calculated by discounting all future cash flows by the applicable market yield curves at the balance sheet date.

Cash flow hedges mitigate exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability or a forecast transaction. Hedge accounting is only used where, at the inception of the hedge, there is formal designation and documentation of the hedging relationship, it meets the Group's risk management objective strategy for undertaking the hedge and it is expected to be highly effective. The portion of any gains or losses on cash flow hedges which meet the conditions for hedge accounting and are determined to be effective, are recognised directly in the statement of comprehensive income. The gains or losses relating to the ineffective portion are recognised immediately in the income statement. When a firm commitment or highly probable future transaction that is hedged becomes an asset or a liability recognised on the balance sheet, then, at the time the asset or liability is recognised, the associated gains or losses that had previously been recognised in equity are included in the initial measurement of the acquisition cost or other carrying amount of the asset or liability

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated, exercised or no longer qualifies for hedge accounting. At that point in time, for cash flow hedges, any cumulative gain or loss on the hedging instrument recognised in equity is kept in equity until the forecast transaction occurs. If a hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the income statement. Gains or losses arising from changes in the fair value of forward contracts that do not qualify for hedge accounting, are recognised immediately in the income statement

Share-based payments

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

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

3. Accounting judgements and key sources of estimation uncertainty

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

Where sensitivity analyses have been prepared below, management have determined that 15% increases/decreases to primary inputs are appropriate thresholds to illustrate the potential impact on profit in the year. In FY19 management performed sensitivities with 10% increases/decreases to primary inputs. The increase to 15% in FY20 reflects the potential increased volatility and uncertainty of forward looking judgements and estimates when operating during the COVID-19 pandemic, particularly in the short-term.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The principal assumptions underlying sources of estimation uncertainty and other areas of focus remain consistent with the prior year.

Critical accounting judgements

Present ownership interest

Acquisition transactions are reviewed to determine whether they give the Group a present ownership interest when subsidiaries are acquired with non-controlling interests subject to put options that are mandatorily exercisable at a final exercise date. Factors taken into account include considering whether there are any restrictions on voting rights, dividend rights and decision making for the non-controlling interests. Furthermore consideration is given to the extent to which non-controlling interests are able to participate in any increase in value over the period to the exercise date. On the basis that there are no restrictions on voting rights, dividend rights or decision making and that non-controlling interests are able to participate in any increases in value over the period to the exercise date the Directors' judgement is that the Group does not have a present ownership interest over the remaining 21% equity interest of eLocal Holdings LLC (see note 16)

Post acquisition employment services

Potential cash payments relating to put options that relate to post acquisition employment services of the put option holders are accounted for as post combination employee benefit expenses in accordance with IAS 19. Judgement is involved in determining the correct allocation between employment costs and further purchase consideration

Key sources of estimation uncertainty

Claims handling obligations

Regarding revenue recognition, a proportion of revenue is deferred to cover the Group's future obligations in respect of handling future claims arising on those policies that are on risk at the year end.

The key sources of estimation uncertainty in determining an appropriate proportion of revenue to defer are the assumptions made with regards to claims frequency and the estimated cost of handling a claim. The Group uses historical experience of claim volumes and forecast activity levels to estimate these assumptions. The total amount of revenue deferred at 31 March 2020 in respect of the Group's future claim handling obligations is £38.0m (FY19: £40.1m). If either of these assumptions were individually higher or lower than the Group's historical experience by 15% the impact to the profit in the year would be £5.7m (FY19: 10%, £4.0m)

Valuation of acquisition intangible assets

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

The key sources of estimation uncertainty with respect to customer databases are the future retention rate and the income per customer generated from those customers. The carrying value of acquired customer databases at 31 March 2020 is £124.6m (FY19: £126.7m). If the retention rate or income per customer was individually higher or lower by 15% the impact to profit in the year would be £18.7m (FY19: 10%, £12.7m)

In respect of intangible assets for acquired access rights, the key sources of estimation uncertainty relate to the assumptions regarding the number of policy sales and associated penetration of the customer list along with the cost of acquisition, retention rate and costs associated with servicing those customers. The total value of acquired access rights at 31 March 2020 is £156.5m (FY19: £90.8m), therefore if the assumptions used in this valuation were individually higher or lower by 15% the impact to the profit in the year would be £23.5m (FY19: 10%, £9.1m).

Valuation of put options over non-controlling interests

On acquisition of a subsidiary the Group records any associated put options over non-controlling interests at the expected gross present value of the obligations. Subsequent changes in the present value of the expected gross obligation are recorded in the income statement at the end of each reporting period. Determining the value of the obligations, both at initial recognition and subsequent reporting dates

Notes to financial statements

Year ended 31 March 2020

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

Key sources of estimation uncertainty (continued)

Valuation of put options over non-controlling interests (continued)

requires that management make assumptions and utilise techniques that are key sources of estimation uncertainties. Key assumptions include using Monte Carlo simulations to determine the expected performance of the acquired business over a period of up to five years as well as the probability of a range of actions available to the non-controlling interests regarding the timing of exercise. Initial estimates of expected performance are made by the Directors responsible for completing the acquisition and form a key component of the financial due diligence that takes place prior to completion. Subsequent measurement is based on the Directors' appraisal of the acquired business' performance in the post-acquisition period with any required adjustments to the amount payable recognised in the income statement. Due to the various number of assumptions used in the valuation model, the Directors do not consider it to be meaningful to include estimates of sensitivities. It is however possible, that within the next financial year changes to assumptions used in the valuation model could require a material adjustment to the carrying amount of the put option. At 31 March 2020 the carrying value of obligations under put options was £31.3m, in association with the option to acquire the outstanding non-controlling interests in eLocal Holdings LLC (FY19: £11.0m), in association with the option to acquire the outstanding non-controlling interests in Habitissimo S.L., see notes 16 and 23

Impairment of goodwill and acquisition intangible assets

The annual impairment assessment in respect of goodwill and acquisition intangibles requires estimates of the value in use (or fair value less costs to sell) of the CGU to which goodwill and acquisition intangibles have been allocated. CGUs are aligned to the lines of business within each geographic territory in which the Group operates. As a result, estimates of future cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows. Where significant investment is planned in a CGU during the typical three year plan period approved by the Directors, a period of actual cash flows deviating from the standard period may be deemed more appropriate for purposes of impairment testing. Consequently, although all impairment reviews during FY20 were performed based on three years of plan cash flows, the impairment review of Checktrade in FY19 was performed using four years of plan cash flows approved by the Directors. In both years presented the long-term growth rate applied to the Checktrade analysis was consistent with all other CGUs

The carrying value of goodwill is £509.9m (FY19: £407.9m). The carrying value of acquisition intangibles is £292.3m (FY19: £229.1m). Following the annual impairment review, impairment charges of £0.5m and £0.7m respectively (FY19: £nil and £nil) have been recorded against the goodwill and acquisition intangibles associated with the acquisition of Somgas Hogar S.L., see notes 13 and 14.

As set out in note 13, changes in respect of commercial outcomes around sales volumes, prices, margins and discount rates can impact the recoverable value.

All businesses have modelled scenarios with varying levels of severity as a result of the COVID-19 pandemic, considering different timelines for emerging from lockdowns and the resultant impacts on customer, employee and supplier mobility and how this impacts profits and cash flows. In addition, all businesses have also considered potential upside factors such as increased demand as situations ease. The analyses, which management believe are based on reasonably plausible assumptions, does not result in the carrying amount of goodwill exceeding the recoverable amount

Other areas of focus

Whilst not considered to be critical accounting judgements or key sources of estimation uncertainty, the following are areas of focus for management

Policy cancellations

In respect of those policies that may be cancelled by the policyholder part way through the contractual term, which will affect the economic benefits that flow to the Group, a liability is recognised to ensure that the related revenue is appropriately constrained at the point that the policy incepts.

The sources of estimation uncertainty in calculating refund liabilities in respect of policy cancellations are the expected mid-term cancellation percentage and the period of cover remaining on the policy at the point of cancellation. The Group uses historical experience to determine the appropriate assumptions to be used in this calculation. The total amount of revenue deferred at 31 March 2020 in respect of potential future cancellations is £24.3m (FY19: £17.7m). The most significant estimation uncertainty within this judgement is the mid-term cancellation percentage. If this assumption was individually higher or lower than the Group's historical experience by 15% the impact to profit in the year would be £3.6m (FY19: 10%, £1.8m).

4. Segmental information and revenue from contracts with customers

Segment revenues and results

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker, who is considered to be the Chief Executive, to allocate resources to the segments and to assess their performance. During FY19 the Group's 'Home Experts' businesses met the definition of an operating segment under IFRS 8 and since 31 March 2019 have been presented separately from 'New Markets'. The 'Home Experts' segment contains the results of Checktrade, eLocal, Habitissimo and Home Experts France. New Markets includes the Group's international development initiatives, including its Japanese joint venture and its former Italian associate which was disposed of on 1 August 2019, see notes 7 and 18

Segment operating profit/(loss) represents the result of each segment including allocating costs associated with head office and shared functions, but without allocating investment income, finance costs and tax. This is the measure reported to the Chief Executive for the purposes of resource allocation and assessment of segment performance

The accounting policies of the operating segments are the same as those described in note 2. Group cost allocations are deducted in arriving at segmental operating profit. Inter-segment revenue relates to transactions with other Group companies, removed on consolidation, and principally comprises royalty and other similar charges charged at prevailing market prices. Disaggregation of revenue by both line of business and geography are disclosed below. Management believes that these are the most relevant categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The line of business analysis also illustrates the Group's revenue by major products and services.

	UK £m	North America £m	France £m	Spain £m	New Markets £m	Home Experts £m	Total £m
2020							
Revenue							
Net policy income	249.4	354.9	104.5	49.2	—	—	758.0
Repair income	89.5	30.6	0.4	94.4	—	—	214.9
HVAC	21.2	42.4	6.8	10.5	—	—	80.9
Home Experts	—	—	—	—	—	71.8	71.8
Other	12.8	1.6	0.1	—	—	—	14.5
Total revenue	372.9	429.5	111.8	154.1	—	71.8	1,140.1
Inter-segment	(7.8)	—	—	—	—	—	(7.8)
External revenue	365.1	429.5	111.8	154.1	—	71.8	1,132.3
Result							
Adjusted operating profit/(loss)	81.0	85.4	33.8	20.1	(4.7)	(13.9)	201.7
Exceptional items	(15.0)	—	—	—	3.8	3.6	(7.6)
Amortisation of acquisition intangibles	(3.2)	(17.8)	(6.9)	(0.5)	—	(71)	(35.5)
Operating profit/(loss)	62.8	67.6	26.9	19.6	(0.9)	(17.4)	158.6
Investment income							0.5
Finance costs							(21.2)
Profit before tax							137.9
Tax							(32.1)
Profit for the year							105.8
2019							
Revenue							
Net policy income	244.0	303.3	101.9	55.3	—	—	704.5
Repair income	108.9	15.7	0.4	81.1	—	—	206.1
HVAC	25.5	13.4	1.5	4.4	—	—	44.8
Home Experts	—	—	—	—	—	40.4	40.4
Other	13.3	1.0	0.8	—	—	—	15.1
Total revenue	391.7	333.4	104.6	140.8	—	40.4	1,010.9
Inter-segment	(7.3)	—	—	—	—	—	(7.3)
External revenue	384.4	333.4	104.6	140.8	—	40.4	1,003.6
Result							
Adjusted operating profit/(loss)	66.0	67.6	33.3	17.7	(2.4)	(7.4)	174.8
Exceptional items	4.6	—	—	—	—	—	4.6
Amortisation of acquisition intangibles	(2.2)	(12.9)	(6.5)	(0.2)	—	(5.0)	(26.8)
Operating profit/(loss)	68.4	54.7	26.8	17.5	(2.4)	(12.4)	152.6
Investment income							0.2
Finance costs							(13.3)
Profit before tax							139.5
Tax							(31.2)
Profit for the year							108.3

Adjusted operating profit is defined in the Glossary to the Annual Report & Accounts on page 193

Notes to financial statements

Year ended 31 March 2020

4. Segmental information and revenue from contracts with customers (continued)

Segment information

	Assets		Liabilities		Capital additions		Depreciation, amortisation and impairment	
	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m	2020 £m	2019 £m
UK	1,183.3	953.8	653.2	468.0	21.1	27.6	47.5	16.9
North America	557.1	436.6	683.6	441.3	27.7	64.2	35.3	23.8
France	247.3	225.4	163.3	152.1	14.2	9.8	13.6	10.0
Spain	143.8	113.3	105.5	78.6	8.9	8.7	17.4	16.6
New Markets	0.6	6.9	31.9	28.8	—	—	—	—
Home Experts	210.1	77.5	58.4	31.1	10.5	4.7	10.8	6.6
Inter-segment	(559.2)	(378.9)	(559.2)	(378.9)	—	—	—	—
Total	1,783.0	1,434.6	1,136.7	821.0	82.4	115.0	124.6	73.9

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

Figures for depreciation, amortisation and impairment are shown inclusive of depreciation of IFRS 16 right-of-use assets in FY20. In FY20 these figures also include £14.3m (FY19: £nil) of impairment charges booked in the UK segment in relation to HomeServe Labs (see note 7) and £1.2m (FY19: £nil) of impairment charges booked in the Spain segment in relation to the acquisition of Somgas Hogar S.L. (see notes 13 & 14).

Information about major customers

During the periods presented three underwriters were customers of the Group that individually accounted for over 10% of the Group's revenues:

	2020 %	2019 %
Customer 1 - UK	28.9	32.6
Customer 2 - North America	16.7	16.7
Customer 3 - North America	12.9	13.6
Other customers individually representing below 10% of Group revenue	41.5	37.1
	100.0	100.0

Geographical information

The Group operates in three principal geographical areas: UK, Continental Europe and North America, as well as Latin America and Japan.

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

	Revenue from external customers		Non-current assets	
	2020 £m	2019 £m	2020 £m	2019 £m
UK	403.7	414.2	457.2	461.9
North America	451.6	333.4	248.5	232.9
Continental Europe	273.2	252.4	426.5	221.8
Latin America	3.8	3.6	—	—
	1,132.3	1,003.6	1,132.2	916.6

Information relating to Continental Europe in the table above includes the Group's businesses in France and Spain

Transaction price allocated to remaining performance obligations

The total transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) on the Group's multi-year arrangements with underwriters to sell policies, is £51.7m (FY19: £49.3m), related to all ancillary obligations delivered after any given policy is sold. The obligations associated with the outstanding transaction price are expected to be fulfilled, and revenue fully recognised, within the next 12 months.

All other contracts with customers have an original expected duration of one year or less. No consideration from these contracts has been excluded from the transaction price. Applying the practical expedient of paragraph 121 of IFRS 15, information about remaining performance obligations on these contracts has not been disclosed.

Contract balances

An analysis of the Group's contract balances is as follows:

	2020 £m	2019 £m
Current assets		
Amounts receivable for the provision of services (see note 20)	427.3	369.9
Accrued income (see note 20)	16.9	15.1
Current liabilities		
Deferred income (see note 22)	51.7	49.3

All contract balances are classified as current. Accrued income contract assets primarily relate to services performed for customers in our Home Experts businesses and customers in our Spanish home assistance membership operations in advance of payment being received, or falling due. Accrued income contract assets are transferred to trade receivables when the right to consideration becomes unconditional. Deferred income contract liabilities principally relate to advance consideration received from customers, for which revenue is recognised as the associated performance obligation is satisfied. Significant deferred income contract liabilities are recorded across the Group in the Membership and Home Experts lines of business.

Significant changes in accrued and deferred income balances during the period were as follows:

	Accrued Income £m	Deferred Income £m
At 31 March 2018	9.6	86.3
Opening impact of IFRS 15	2.3	(37.3)
At 1 April 2018	11.9	49.0
Transfers to receivables	(10.0)	—
Revenue recognised from the opening balance	—	(50.2)
Revenue deferred not yet earned	—	46.1
Revenue earned not yet due	13.4	—
Business combinations	—	3.2
Foreign exchange	(0.2)	1.2
At 1 April 2019	15.1	49.3
Transfers to receivables	(14.6)	—
Revenue recognised from the opening balance	—	(50.1)
Revenue deferred not yet earned	—	47.5
Revenue earned not yet due	16.1	—
Business combinations	—	3.7
Foreign exchange	0.3	1.3
At 31 March 2020	16.9	51.7

Revenue deferred not yet earned is presented net of amounts created and released within the same reporting period. Revenue recognised in 2020 and 2019 in relation to performance obligations satisfied (or partially satisfied) in previous periods was immaterial.

Notes to financial statements

Year ended 31 March 2020

4. Segmental information and revenue from contracts with customers (continued)

Contract costs	£m
At 1 April 2018	—
Transferred from intangible assets on transition to IFRS 15 ¹	38.5
Additions	4.3
Amortisation	(14.9)
Foreign exchange	(0.4)
At 1 April 2019	27.5
Additions	2.3
Disposals	(1.6)
Amortisation	(11.8)
Impairment	(0.1)
Foreign exchange	0.5
At 31 March 2020	16.8

¹ On 1 April 2018 assets with a total net book value of £38.5m were transferred out of customer databases and reclassified as contract cost assets under IFRS 15 (see note 14)

Contract costs primarily represent the value attributable to the portfolio of renewable customers created by Affinity Partners through their own sales and marketing activity, subsequently purchased by the Group. Where these capitalised commission costs are incremental to the cost of obtaining the contract with the Group's direct customer they are capitalised under IFRS 15. Management anticipate these costs to be recoverable over the expected life of the associated customer relationship, over which they will be amortised.

Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognises the incremental cost of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

5. Profit for the year

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

	2020 £m	2019 £m
Included in operating costs:		
Staff remuneration	339.2	306.9
Cost of inventories recognised as an expense	24.2	29.8
Depreciation of right-of-use assets	14.2	—
Depreciation of property, plant and equipment	9.3	9.1
Amortisation of acquisition intangible assets	35.5	26.8
Amortisation of other intangible assets	38.3	23.1
Amortisation of contract costs	11.8	14.9
(Gain)/Loss on disposal of property, plant and equipment, intangibles and contract costs	(0.8)	0.6
Net amounts written off on trade receivables and contract assets (see note 20)	4.1	1.1
Non-exceptional impairment of goodwill and acquired intangibles	1.2	—
Exceptional impairment charges (see note 7)	14.3	—
Expenses relating to variable lease payments not included in the measurement of lease liabilities	1.9	—
Expenses relating to leases of low value assets, excluding short-term leases of low value assets	0.1	—
Expenses relating to short-term leases	0.9	—

	2020 £'000	2019 £'000
The analysis of auditor's remuneration is as follows:		
Fees payable to the Company's auditor for the audit of the Company's annual financial statements	153	72
The audit of the Company's subsidiaries pursuant to legislation	1,161	878
Total audit fees	1,314	950
Audit-related assurance services (half year review)	55	52
Total non-audit fees	55	52
Total auditor's remuneration	1,369	1,002

Fees payable to Deloitte LLP and their member firms for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis

A description of the work of the Audit and Risk Committee is set out in the Corporate Governance report and includes an explanation of how auditor objectivity and independence are safeguarded when non-audit services are provided by the auditor.

6. Staff remuneration

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

	2020 number	2019 number
UK (including Head Office)	3,397	3,814
Continental Europe	1,614	1,522
North America	1,821	1,112
	6,832	6,448

	2020 £m	2019 £m
Their aggregate remuneration comprised		
Wages and salaries	295.2	266.0
Social security costs	36.9	34.1
Other pension costs (see note 33)	7.1	6.8
	339.2	306.9

Included within wages and salaries is £1.0m of post combination employee benefit expenses recorded in relation to the Group's option to acquire the non-controlling interest of eLocal Holdings LLC (see note 16).

The Company only staff numbers and remuneration amounts for HomeServe plc are disclosed in note 36 to the parent company financial statements.

Notes to financial statements

Year ended 31 March 2020

7. Exceptional items

Exceptional items, booked to operating costs, comprised the following

	2020 £m	2019 £m
Gain on acquisition of subsidiary non-controlling interests	3.6	—
Gain on disposal of investment in associate	3.8	—
Impairment charges associated with HomeServe Labs	(14.3)	—
Restructuring costs	(0.7)	(5.5)
Fair value movement on contingent consideration liabilities	—	10.1
Exceptional items included within Group operating profit before tax	(7.6)	4.6
Net taxation on exceptional items	2.0	(0.2)
Net exceptional items after tax	(5.6)	4.4

Year ended 31 March 2020

Acquisition of subsidiary non-controlling interest
See note 30.

Disposal of interest in associate
See note 18.

Impairment and restructuring charges associated with HomeServe Labs

Consumers and insurance partners have been slower than expected to adopt smart leak detection technology. Following the Group's annual budgeting process and subsequent updates in light of COVID-19 HomeServe has completed an impairment review of the Group's LeakBot assets, concluding that the net assets of the business are impaired, and incurring a £15.0m exceptional charge. This conclusion has been reached based on a number of factors affecting expected future cash flows including commercial traction, access to investment and the pace of technology change. Of the £15.0m, £12.9m related to the impairment of development assets for the LeakBot device, £1.4m of inventory and a £0.7m restructuring provision.

Year ended 31 March 2019

Fair value movement on contingent consideration liabilities

At 31 March 2019 the Group reassessed the fair value of outstanding consideration payments due to the previous owners of Help-Link UK Limited, conditional on the number of boiler installations performed from the point of acquisition until July 2020. At this point the Group determined that the likelihood of the conditions being met that would trigger either of the two outstanding payments (a gross undiscounted cash outflow totalling £10.5m) was now remote and therefore the fair value of the outstanding liabilities was £nil. At the point the fair value exercise was performed the balance held on the balance sheet of £10.1m, representing the original discounted value of the liabilities and any associated interest accreted to 31 March 2019, was released to the income statement in accordance with IFRS 3 and treated as exceptional due to its size and incidence.

Restructuring costs

Charges of £5.5m were incurred during FY19 to restructure the UK business along lines that strengthen it to best adapt to evolving customer needs. Marketing and other support headcount was reduced, as the business moved away from an over reliance on direct mail activity and prepares for the implementation of new systems. Costs related to these programmes have been treated as exceptional due to their size and incidence.

8. Investment income

	2020 £m	2019 £m
Interest on bank deposits	0.5	0.2

9. Finance costs

	2020 £m	2019 £m
Interest on bank and other loans	17.7	11.5
Interest on lease liabilities	1.5	—
Unwinding of discount on deferred and contingent consideration	1.0	0.6
Unwinding of discount on obligations under put options	0.5	1.0
Exchange movements	0.5	0.2
	21.2	13.3

10. Taxation

	2020 £m	2019 £m
Current tax		
Current year charge	33.7	31.8
Adjustments in respect of prior years	(1.8)	(1.9)
Total current tax charge	31.9	29.9
Deferred tax charge	0.2	1.3
Total tax charge	32.1	31.2

The pre-exceptional effective tax rate for the year ended 31 March 2020 was 23%. The post-exceptional effective tax rate for the same period was 24%. UK corporation tax is calculated at 19% (FY19: 19%) of the estimated assessable profit for the year. The UK Government in its 2020 Budget announced that the main UK corporate rate would be maintained at 19% until 31 March 2022, before being reviewed, and would not be reduced to 17%. We have reflected this change in our UK deferred tax calculations.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions, these being a blended (Federal/State) rate of 27% in the US (FY19: 27%), 31% in France (FY19: 33%) as a result of France enacting new tax legislation in December 2018 effective for accounting periods beginning on or after 1 January 2019 and 25% in Spain (FY19: 25%), which explains the 'Overseas tax rate differences' below.

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

	2020 £m	2019 £m
Profit before tax on continuing operations	137.9	139.5
Tax at the UK corporation tax rate of 19% (FY19: 19%)	26.2	26.5
Tax effect of items that are not taxable in determining taxable profit	1.1	(0.6)
Adjustments in respect of prior years – current tax	(1.8)	(1.9)
Overseas tax rate differences	6.6	7.2
Tax expense for the year	32.1	31.2

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

In April 2019, the European Commission (the Commission) of the European Union (the EU) published its official decision in relation to certain aspects of the UK's Controlled Foreign Company rules. In particular, the Commission has decided that the 'Group Financing Exemption' is in breach of the EU's State Aid rules. The UK Government and a number of taxpayers have appealed this judgment applying for the decision to be annulled. These annulment proceedings are likely to take several years before a decision is handed down. In the meantime, HM Revenue & Customs (HMRC) recently published guidance as to how it plans to implement this EU decision. Whilst we await the decision in the annulment proceedings it is likely that certain of HomeServe's financing arrangements will be impacted by this EU decision (and HMRC's subsequent guidance). We have included the calculation of the potential liability within our analysis, and therefore believe any risk is fully provided for as part of our uncertain income tax estimation within current tax liabilities in the Group Balance Sheet.

A retirement benefit tax charge of £0.3m (FY19: £0.1m credit) has been recognised directly in other comprehensive income. In addition to the amounts credited/(charged) to the income statement and other comprehensive income, the following amounts relating to tax have been recognised directly in equity

	2020 £m	2019 £m
Current tax		
Excess tax deductions related to share-based payments on exercised options	3.0	2.7
Deferred tax		
Opening impact of IFRS 15	—	0.5
Change in estimated excess tax deductions related to share-based payments	(1.2)	0.3
Total tax recognised directly in equity	1.8	3.5

Notes to financial statements

Year ended 31 March 2020

10. Taxation (continued)

Deferred tax

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

Asset/(liability)	Timing differences £m	Elected goodwill deductions £m	Retirement benefit obligations £m	Share schemes £m	Acquired intangible assets £m	Unutilised losses £m	Investment revaluation reserve £m	Total £m
At 1 April 2018	(1.2)	(0.1)	(0.9)	5.4	(28.9)	77	(0.7)	(18.7)
Impact of IFRS 15 (equity credit)	0.5	—	—	—	—	—	—	0.5
(Charge)/credit to Income	(3.6)	0.1	(0.4)	0.1	4.0	(1.5)	—	(1.3)
Credit to equity	—	—	—	0.3	—	—	—	0.3
Credit/(charge) to Comprehensive Income	—	—	0.1	—	—	—	(0.2)	(0.1)
Acquisition of subsidiaries	—	—	—	—	(0.6)	—	—	(0.6)
Transfers	0.6	—	—	—	—	(0.6)	—	—
Exchange movements	0.4	—	—	0.2	(0.4)	0.6	0.1	0.9
At 1 April 2019	(3.3)	—	(1.2)	6.0	(25.9)	6.2	(0.8)	(19.0)
Credit/(charge) to Income	(4.8)	(0.8)	(0.4)	(0.3)	77	(1.6)	—	(0.2)
Charge to equity	—	—	—	(1.2)	—	—	—	(1.2)
Credit/(charge) to Comprehensive Income	—	—	(0.3)	—	—	—	0.8	0.5
Acquisition of subsidiaries	—	—	—	—	(0.1)	—	—	(0.1)
Exchange movements	0.1	—	—	0.1	(0.6)	0.2	—	(0.2)
At 31 March 2020	(8.0)	(0.8)	(1.9)	4.6	(18.9)	4.8	—	(20.2)

* The available for sale reserve was renamed the investment revaluation reserve upon adoption of IFRS 9 on 1 April 2018

The majority of unutilised losses are expected to be utilised within five years.

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

	UK £m	France £m	Spain £m	North America £m	2020 £m	2019 £m
Deferred tax assets	—	—	3.6	2.4	6.0	7.4
Deferred tax liabilities	(11.8)	(14.4)	—	—	(26.2)	(26.4)
Net deferred tax (liability)/asset	(11.8)	(14.4)	3.6	2.4	(20.2)	(19.0)

Deferred tax has not been recognised on £13.2m (FY19: £9.7m) of unused losses due to the uncertainty over the timing of future recovery. There are no expiry dates in respect of the unrecognised tax losses in either year.

11. Dividends

	2020 £m	2019 £m
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2019 of 16.2p (2018: 14.4p) per share	54.1	47.8
Interim dividend for the year ended 31 March 2020 of 5.8p (2019: 5.2p) per share	19.4	17.2
	73.5	65.0

The proposed final dividend for the year ended 31 March 2020 is 17.8p per share amounting to £59.6m (FY19: 16.2p per share amounting to £54.1m). The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements. The payment of this dividend will not have any tax consequences for the Group.

12. Earnings per share

	2020 pence	2019 pence
Basic	31.7	32.7
Diluted	31.5	32.3
Adjusted basic	41.3	37.5
Adjusted diluted	41.0	37.0

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

Number of shares	2020 m	2019 m
Weighted average number of shares		
Basic	334.2	331.7
Dilutive impact of share options	2.8	3.9
Diluted	337.0	335.6

Earnings	2020 £m	2019 £m
Profit for the year attributable to equity holders of the parent	106.0	108.5
Amortisation of acquisition intangibles	35.5	26.8
Exceptional items (note 7)	7.6	(4.6)
Tax impact arising on amortisation of acquisition intangibles and exceptional items	(11.0)	(6.4)
Adjusted profit for the year attributable to equity holders of the parent	138.1	124.3

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 year. Adjusted earnings per share is calculated excluding the amortisation of acquisition intangibles, exceptional items and the associated tax impacts.

The Group uses adjusted operating profit, adjusted operating margin, adjusted EBITDA, adjusted profit before tax and adjusted earnings per share as its primary performance measures. These are non-IFRS measures which exclude the impact of exceptional items, the amortisation of acquisition intangibles and the associated tax impacts. For further details refer to the 'Profitability' section of the Glossary.

Diluted earnings per share includes the impact of dilutive share options in issue throughout the year.

Notes to financial statements

Year ended 31 March 2020

13. Goodwill

	£m
Cost	
At 1 April 2018	386.6
Recognised on acquisition of subsidiaries	21.0
Adjustment related to prior year acquisition	(0.7)
Exchange movements	1.0
At 1 April 2019	407.9
Recognised on acquisition of subsidiaries	92.8
Impairment	(0.5)
Adjustment related to prior year acquisition	0.3
Exchange movements	9.4
At 31 March 2020	509.9
Carrying amount	
At 31 March 2020	509.9
At 31 March 2019	407.9

Adjustments to provisional balances

During FY20 the provisional fair values for the acquisition of Cropp Metcalfe Air Conditioning and Heating Company Inc. disclosed as part of the Group's FY19 Annual Report have been updated, resulting in a £0.3m increase to goodwill at 31 March 2020. In November 2018 the provisional fair values recorded for the FY18 acquisition of Energy Insurance Services Limited were finalised resulting in a decrease to goodwill of £0.7m at 31 March 2019.

Impairment of goodwill associated with the acquisition of Somgas Hogar S.L.

During the period between acquisition on 25 July 2019 and 31 March 2020 a significant revenue generating contract of Somgas Hogar S.L., a Group company, ceased. In light of these circumstances and due to the recent nature of the acquisition, it was considered appropriate to perform a separate impairment review of the Somgas business, resulting in an impairment to goodwill of £0.5m. The recoverable amount of goodwill associated with Somgas at 31 March 2020 was £2.8m based on its value in use. The financial performance and position of Somgas is reported within the Group's "Spain" segment and in the "HVAC" business line. The discount rate used to perform the impairment assessment was consistent with that of the "Spain" CGU disclosed below.

Impairment testing methodology and goodwill allocation

Goodwill acquired in a business combination is allocated, at acquisition, to the CGUs that are expected to benefit from that business combination. The Group's CGUs are defined as the lines of business within each geographic territory in which the Group operates, because they represent the smallest identifiable group of assets that generate cash flows. The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations.

The key assumptions for the value in use calculations are those regarding growth rates, discount rates and expected changes to selling prices and direct costs during the period. The Group prepares cash flow forecasts derived from the most recent financial budgets and plans for the next three years approved by the Directors and extrapolates the annual cash flows using estimated, long-term growth rates. The financial budgets and plans have been updated to reflect the anticipated impact on our business of the COVID-19 pandemic. Our assumption is that the lockdown period continues for a three month period until the end of June 2020 with a gradual return to more normal levels of demand thereafter. It has been anticipated that there will be a greater impact on our Home Experts businesses due to the non-emergency nature of some of the work, therefore the recovery period is assumed to be more gradual with a phased recovery across the remainder of the financial year to March 2021.

The growth rates are based on detailed business plans and although long-term growth rate forecasts may be higher in certain territories, the lowest rate across the Group has been applied to reduce the risk that value in use calculations are overstated. The long-term growth rate utilised is 2% (FY19: 2%). Changes in selling prices and direct costs are based on expectations of future changes in the market.

Where significant investment is planned in a CGU during the typical three year plan period approved by the Directors, a period of actual cash flows deviating from the standard period may be deemed more appropriate for purposes of impairment testing. Consequently, although all impairment reviews during FY20 were performed based on three years of plan cash flows, the impairment review of Checktrade in FY19 was performed using four years of plan cash flows approved by the Directors. In both years presented, the long-term growth rate applied to the Checktrade analysis was consistent with all other CGUs.

Management estimates the discount rates using pre-tax rates that reflect current market assessments of the time value of money. The pre-tax cost of capital rates used to discount the forecast pre-tax cash flows are different for each CGU and are as follows:

Segment	CGUs	2020	2019
UK	UK	9.8%	8.8%
North America	North America	10.3%	9.7%
France	France	9.5%	8.6%
Spain	Spain	10.4%	9.9%
Home Experts	Checktrade	11.6%	8.8%
Home Experts	Habitissimo	12.8%	9.9%
Home Experts	eLocal	12.2%	N/A

Pre-tax cost of capital rates reflect the latest cost of debt and equity for a sample of comparable companies in accordance with the market participant premise detailed in IAS 36. The increase in the discount rates versus FY19 reflects the impact of COVID-19 and the associated cost of both equity and debt.

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value, which also reflects the different risk profile of each CGU. This includes modelling scenarios with varying levels of severity as a result of the COVID-19 pandemic; considering different timelines for emerging from lockdowns (e.g. 3 and 6 months) and the resultant impacts on customer, employee and supplier mobility and how this impacts profits and cash flows.

Having performed this analysis, the Group believes that there are no reasonably possible changes to the key assumptions in the next year which would result in the carrying amount of goodwill exceeding the recoverable amount. However, if the lockdown period was significantly longer than the scenarios noted above and the demand for home improvements remains suppressed after the end of the lockdown, this could potentially have an impact on the carrying value of our Home Experts CGUs. This view is based upon inherently judgemental assumptions, however, it takes account of the headroom in the value in use calculation versus the current carrying value.

The carrying amount of goodwill has been allocated, by CGU, as follows:

	2020 £m	2019 £m
UK	183.6	183.6
North America	76.8	48.5
France	93.6	88.6
Spain	23.7	17.6
Home Experts - Checktrade	58.6	58.6
Home Experts - Habitissimo	11.3	11.0
Home Experts - eLocal	62.3	—
	509.9	407.9

The Group's CGUs do not contain any intangible assets with indefinite useful economic lives.

Notes to financial statements

Year ended 31 March 2020

14. Other intangible assets

	Acquired access rights £m	Acquired customer databases £m	Other acquired intangibles £m	Total acquisition intangibles £m	Trademarks & access rights £m	Customer databases ¹ £m	Software £m	Total intangibles £m
Cost								
At 1 April 2018	87.7	191.5	13.9	293.1	34.1	94.1	211.7	633.0
IFRS 15 reclassification	—	—	—	—	—	(85.0)	—	(85.0)
Additions	28.2	20.6	—	48.8	1.3	8.8	42.0	100.9
Acquisition of subsidiaries	12.4	2.6	—	15.0	—	—	—	15.0
Disposals	—	—	—	—	—	—	(1.1)	(1.1)
Transfers	(6.1)	6.4	—	0.3	0.6	—	(0.9)	—
Exchange movements	4.3	3.8	—	8.1	1.4	(0.3)	1.9	11.1
At 1 April 2019	126.5	224.9	13.9	365.3	37.4	17.6	253.6	673.9
Additions	4.1	4.2	—	8.3	4.8	13.1	45.4	71.6
Acquisition of subsidiaries	72.3	6.7	1.4	80.4	—	—	0.1	80.5
Disposals	—	(0.2)	—	(0.2)	—	—	(4.5)	(4.7)
Transfers	(3.7)	3.7	—	—	—	—	0.7	0.7
Exchange movements	8.7	7.6	—	16.3	0.8	0.7	3.1	20.9
At 31 March 2020	207.9	246.9	15.3	470.1	43.0	31.4	298.4	842.9
Accumulated amortisation								
At 1 April 2018	27.4	78.6	0.6	106.6	27.0	49.1	65.5	248.2
IFRS 15 reclassification	—	—	—	—	—	(46.5)	—	(46.5)
Charge for the year	7.5	17.6	1.7	26.8	3.0	2.3	17.8	49.9
Disposals	—	—	—	—	—	—	(0.1)	(0.1)
Transfers	0.1	—	—	0.1	(0.1)	—	—	—
Exchange movements	0.7	2.0	—	2.7	0.5	(0.1)	0.7	3.8
At 1 April 2019	35.7	98.2	2.3	136.2	30.4	4.8	83.9	255.3
Charge for the year	13.8	19.9	1.8	35.5	4.1	3.5	30.7	73.8
Impairment	—	0.7	—	0.7	1.0	—	11.9	13.6
Disposals	—	—	—	—	—	—	(4.5)	(4.5)
Transfers	0.1	(0.1)	—	—	(0.8)	0.8	0.2	0.2
Exchange movements	1.8	3.6	—	5.4	0.4	0.2	1.4	7.4
At 31 March 2020	51.4	122.3	4.1	177.8	35.1	9.3	123.6	345.8
Carrying amount								
At 31 March 2020	156.5	124.6	11.2	292.3	7.9	22.1	174.8	497.1
At 31 March 2019	90.8	126.7	11.6	229.1	7.0	12.8	169.7	418.6

¹ On 1 April 2018 assets with a total net book value of £38.5m were transferred out of customer databases and reclassified as contract cost assets under IFRS 15 (see note 4)

Other acquired intangibles include acquired brands and technology assets. At the balance sheet date there are no contractual commitments for the purchase of intangible assets (FY19: £nil)

Software includes assets with a book value of £81.8m (FY19: £81.8m) in respect of the new Customer Relationship Management (CRM) system which has been rolled out in the UK business during FY20 for front book policies. The asset is being amortised over 10 years on a straight-line basis and over 9 years remains of its useful economic life. Acquired access rights include assets with a book value of £62.1m in respect of customer relationships acquired as part of the acquisition of eLocal Holdings LLC (see note 16). The assets are being amortised over periods ranging between 10 and 11 years on a straight-line basis and have over 9 to 10 years useful economic life remaining

Impairment

At 31 March 2020 the carrying value of intangible assets associated with HomeServe Labs were reviewed for impairment resulting in charges being recorded in association with the software assets (£11.9m) and trademarks & access rights (£1.0m) of the business. The total impairment charges of £12.9m associated with HomeServe Labs related intangible assets were treated as exceptional due to their size and incidence (see note 7). Post impairment the carrying value of the impaired intangibles was £nil

Additionally, during the period between acquisition on 25 July 2019 and 31 March 2020 a significant revenue generating contract of Somgas Hogar S.L., a Group company, ceased. In light of these circumstances and due to the recent nature of the acquisition, it was considered appropriate to perform a separate impairment review of the Somgas business, resulting in an impairment to acquired customer databases of £0.7m. For additional detail on the impairment review of the Somgas business see note 13

15. Property, plant and equipment

	Land & buildings £m	Furniture, fixtures & equipment £m	Computer equipment £m	Motor vehicles £m	Total £m
Cost					
At 1 April 2018	35.4	12.1	26.8	5.5	79.8
Additions	2.1	1.6	4.9	1.2	9.8
Disposals	(0.1)	(0.2)	(0.3)	(0.5)	(1.1)
Acquisition of subsidiaries	0.3	—	—	1.9	2.2
Exchange movements	0.1	0.2	0.6	0.4	1.3
At 1 April 2019	37.8	13.7	32.0	8.5	92.0
Transfers ¹	0.4	(0.5)	(0.3)	(6.1)	(6.5)
Additions	2.3	1.6	3.3	1.3	8.5
Disposals	(0.4)	(0.2)	(0.3)	(0.5)	(1.4)
Acquisition of subsidiaries	0.4	0.1	0.2	1.2	1.9
Exchange movements	0.3	0.2	0.6	0.3	1.4
At 31 March 2020	40.8	14.9	35.5	4.7	95.9
Accumulated depreciation					
At 1 April 2018	13.7	7.8	14.7	3.7	39.9
Charge for the year	1.7	1.6	5.0	0.8	9.1
Disposals	—	(0.2)	(0.1)	(0.3)	(0.6)
Exchange movements	0.1	0.1	0.4	0.2	0.8
At 1 April 2019	15.5	9.3	20.0	4.4	49.2
Transfers ¹	—	(0.9)	(0.3)	(3.1)	(4.3)
Charge for the year	1.7	2.1	5.1	0.4	9.3
Disposals	(0.2)	(0.2)	(0.3)	(0.4)	(1.1)
Exchange movements	0.2	0.1	0.4	0.1	0.8
At 31 March 2020	17.2	10.4	24.9	1.4	53.9
Carrying amount					
At 31 March 2020	23.6	4.5	10.6	3.3	42.0
At 31 March 2019	22.3	4.4	12.0	4.1	42.8

¹ Included within transfers in FY20 is a carrying book value of £1.7m in respect of assets held under finance leases at 31 March 2019. At 1 April 2019, on transition to IFRS 16, these amounts were transferred to right of use assets. See note 26

At the balance sheet date, there are no contractual commitments for the purchase of property, plant and equipment (FY19: £nil)

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16. Business combinations

The Group has incurred a net cash outflow in respect of business combinations of £140.6m in the year (FY19: £37.5m).

There were three material acquisitions in the year ended 31 March 2020.

- On 26 November 2019, HomeServe USA Holdings Corp., a Group company, acquired 79% of the partnership capital and obtained control of eLocal Holdings LLC (hereafter 'eLocal'). eLocal operates within the Home Experts business line of the Group. The acquisition of eLocal allows HomeServe to continue to progress the Group wide growth strategy in the Home Experts market.
- On 6 December 2019 HomeServe HVAC LLC, a Group company, acquired 100% of the issued share capital and obtained control of Crawford Services, Inc., (hereafter 'Crawford'). Crawford operates within the HVAC business line of the Group. The acquisition of Crawford enhances the scale and scope of the Group's HVAC capabilities in North America.
- On 17 December 2019, HomeServe USA Repair Management Corp., a Group company, acquired a group of assets constituting a business under IFRS 3 from Sunbelt Group LLC (hereafter 'ServLine'). ServLine operates within the Membership business line of the Group. The acquisition of ServLine allows HomeServe to expand the range of products available to offer to its North American water partners.

Additionally the following immaterial acquisitions, which have been combined and presented as 'Other' for the purpose of provisional fair value disclosures, were made during the year ended 31 March 2020.

Membership

- On 31 May 2019, HomeServe USA Repair Management Corp., a Group company, acquired 100% of the issued share capital and obtained control of American Home Guardian, Inc., (hereafter 'AHG').
- On 1 November 2019, HomeServe USA Repair Management Corp., a Group company, acquired 100% of the issued share capital and obtained control of Nations Preferred Home Warranty Inc., (hereafter 'Nations').

The acquisitions of AHG and Nations enhance the scale and scope of the Group's home warranty offering and increase the opportunity for future growth in this market.

HVAC

- On 11 July 2019 HomeServe Spain S.L.U., a Group company, acquired 100% of the issued share capital and obtained control of Linacal S.L., (hereafter 'Linacal').
- On 11 July 2019 HomeServe Spain S.L.U., a Group company, acquired 100% of the issued share capital and obtained control of Tecno Arasat Servicios de Mantenimiento S.L., (hereafter 'Tecno Arasat').
- On 25 July 2019 HomeServe Spain S.L.U., a Group company, acquired 100% of the issued share capital and obtained control of Somgas Hogar S.L., (hereafter 'Sorgas').
- On 31 July 2019 HomeServe HVAC LLC, a Group company, acquired 100% of the issued share capital and obtained control of FAB Electric, Inc., (hereafter 'FAB').
- On 17 September 2019 HomeServe HVAC LLC, a Group company, acquired 100% of the issued share capital and obtained control of Newcore, Inc., also known as Fred's Home Services.
- On 31 October 2019 Electro Gaz Service SA, a Group company, acquired a group of assets constituting a business under IFRS 3 from Michel Vial Services SARL.
- On 30 December 2019 HomeServe Spain S.L.U., a Group company, acquired 100% of the issued share capital and obtained control of Servicios Tecnicos SATE, S.L.
- On 31 December 2019 HomeServe Energy Services SAS, a Group company, acquired 100% of the issued share capital and obtained control of Sylvain Brun Froid SAS.
- On 31 December 2019 HomeServe Energy Services SAS, a Group company, acquired 100% of the issued share capital and obtained control of ID Energies EURL ('ID Energies'). Subsequent to this transaction, on 31 December 2019, ID Energies, a Group company by virtue of its aforementioned acquisition by HomeServe Energy Services SAS, acquired the outstanding 90% of the issued share capital of ID S.A.T. SAS not already owned by ID Energies, thereby obtaining control of ID S.A.T. SAS and bringing the Group's total ownership interest to 100% of the issued share capital.
- On 2 March 2020 ID Energies, a Group company, acquired a group of assets constituting a business under IFRS 3 from Ener'nat SARL.

All HVAC acquisitions made during FY20 enhance the scale and scope of the Group's HVAC capabilities and increase the opportunity for future growth related to new HVAC system installations.

Home Experts

- On 27 June 2019 HomeServe Home Experts SAS, a Group company, acquired a group of assets constituting a business under IFRS 3 from Sell Me Up SAS

The provisional fair values of identifiable assets acquired and liabilities assumed are set out in the table below

At fair value	eLocal £m	Crawford £m	ServLine £m	Other £m	Total £m
Property, plant and equipment	0.2	1.0	—	0.7	1.9
Right-of-use assets	1.5	0.5	—	1.4	3.4
Cash and cash equivalents	3.0	0.4	—	3.1	6.5
Inventories	—	0.2	—	1.0	1.2
Trade and other receivables	4.9	1.1	—	1.9	7.9
Trade and other payables	(5.4)	(1.0)	—	(2.0)	(8.4)
Deferred income	(0.8)	(0.5)	—	(2.4)	(3.7)
Lease liabilities	(1.5)	(0.5)	—	(1.4)	(3.4)
Bank & other loans	(11.6)	—	—	(0.2)	(11.8)
Deferred & contingent consideration	(4.4)	—	—	—	(4.4)
Intangible assets identified on acquisition	63.2	3.6	5.4	8.3	80.5
Deferred tax on acquisition intangibles	—	—	—	(0.1)	(0.1)
Net assets acquired	49.1	4.8	5.4	10.3	69.6
Less non-controlling interests	(10.3)	—	—	—	(10.3)
Goodwill	60.0	6.9	13.1	12.8	92.8
Total	98.8	11.7	18.5	23.1	152.1
Satisfied by:					
Cash	96.4	10.9	13.7	19.7	140.7
Deferred consideration	—	0.8	—	1.8	2.6
Contingent consideration at fair value	2.4	—	4.8	1.6	8.8
	98.8	11.7	18.5	23.1	152.1
Net cash outflow arising on acquisition					
Cash consideration	96.4	10.9	13.7	19.7	140.7
Less: Cash acquired	(3.0)	(0.4)	—	(3.1)	(6.5)
Total	93.4	10.5	13.7	16.6	134.2

The information above is provisional with fair value assessment activities ongoing.

The goodwill arising on the excess of consideration over the fair value of the assets and liabilities acquired represents the expectation of future growth, synergistic benefits and efficiencies. Where elections are made to treat an acquisition that is in scope of US tax legislation as an asset purchase for tax, goodwill is deemed deductible for tax purposes. No other goodwill balances are expected to be deducted for tax purposes. Deferred tax liabilities associated with elected goodwill deductions are disclosed in note 10. The gross contracted amounts due are equal to the fair value amounts stated above for trade and other receivables.

The post-acquisition revenue, operating profit and acquisition related costs (included in operating costs) from these acquisitions in the year ended 31 March 2020 were as follows:

	eLocal £m	Crawford £m	ServLine £m	Other £m	Total £m
Revenue	22.1	4.1	0.4	11.2	37.8
Operating profit/(loss)	2.8	—	—	(0.8)	2.0
Acquisition related costs	(1.7)	—	(0.2)	(0.4)	(2.3)

If all acquisitions had been completed on the first day of the financial year, Group revenue for the year would have been £1,199.2m and Group adjusted profit before tax would have been £192.2m.

In addition to the net cash outflow on the acquisitions above of £134.2m, deferred and contingent consideration was paid relating to previous business combinations of £6.4m (FY19: £10.4m).

Notes to financial statements

Year ended 31 March 2020

16. Business combinations (continued)

Options in relation to the future acquisition of the non-controlling interests in eLocal

The non-controlling shareholders of eLocal hold a series of put options exercisable between 1 July 2021 and 1 July 2023 which obligate HomeServe USA Holdings Corp. to acquire the remaining 21% of eLocal's outstanding partnership capital not already owned by the Group. Option pricing is based on certain future non-market performance metrics and is subject to a floor, being the implied value of eLocal at the time it was acquired by HomeServe USA Holdings Corp.

To the extent that the potential cash payments relating to the put options issued by the Group over the equity of eLocal do not relate to post-acquisition employment services of the option holder, they have been accounted for as financial liabilities. These liabilities have been recognised at the present value of the expected gross obligation with the corresponding entry being recognised in retained earnings. A finance charge will be recorded in order to accrete the liability up to the expected amount payable under the options. All subsequent changes in the carrying amount of the financial liability that result from the re-measurement of the present value of the amount payable upon exercise of the NCI puts will be recognised in the income statement as part of the profit or loss attributable to the parent, and not impact the NCIs' share of the profit or loss of the subsidiary. The carrying values of the put options are provisional with measurement period assessment activities ongoing.

The proportion of the potential cash payments relating to the put options which relate to post-acquisition employment services of the option holder are accounted for as post combination employee benefit expenses in accordance with IAS 19. The expenses are not considered within the scope of IFRS 2 as the associated liabilities are determined based on a fixed multiple which does not reflect the market price of the equity on an ongoing basis.

Additionally, HomeServe USA Holdings Corp. holds a call option which, if exercised, requires certain non-controlling shareholders to sell their remaining interests. This option is only exercisable if in scope shareholders leave the company and are not considered 'Good Leavers' as defined in the option agreements. HomeServe currently assess the likelihood that any in scope shareholder would trigger this clause to be remote and as such have determined that the fair value of this call option is £nil.

17. Other investments

Equity investments carried at fair value through other comprehensive income	£m
At 1 April 2018 ¹	8.7
Fair value gain on FVTOCI investment	0.7
Exchange movements	(0.2)
At 1 April 2019	9.2
Fair value loss on FVTOCI investment	(3.7)
Exchange movements	0.1
At 31 March 2020	5.6

¹ Upon adoption of IFRS 9 the Group made the irrevocable election to measure its existing investment currently held in a manufacturer of smart thermostat connected home technology as fair value through other comprehensive income as the investment is a non-trading equity instrument acquired for strategic purposes rather than capital gain.

At 31 March 2020 the fair value of the Group's investment held in a manufacturer of smart thermostat connected home technology has been reassessed. In light of the current market conditions and uncertainty associated with the COVID-19 pandemic the Group has reduced the fair value of its investment by £3.7m. This movement, net of a £0.8m reduction in the associated deferred tax liability, (see note 10) has been recorded in the investment revaluation reserve.

18. Equity accounted investments

A list of equity accounted investments, including the name, address, country of incorporation, and proportion of ownership is given in note 49 to the Company's separate financial statements.

The Group made no additional investments during the year ended 31 March 2020.

Disposal of interest in associate

On 1 August 2019 HomeServe International, a Group company, disposed of its 49% equity accounted investment in Assistenza Casa Srl, by way of sale for cash consideration of €9.4m (£8.4m). At the point of disposal the carrying value of the Group's investment was £4.6m resulting in the recognition of a £3.8m gain in the consolidated income statement. The gain has been classified as exceptional due to its size, nature and incidence.

The following amounts relate to the combined results of the Group's associate interests in Assistenza Casa Srl (until date of disposal) and Centrig as well as its joint venture interest in HomeServe Japan Corporation:

Summary Financial Information	2020 £m	2019 £m
Loss after tax	(5.9)	(0.9)
Total comprehensive expense	(5.9)	(0.9)
Amounts recognisable	(2.1)	(0.3)

The proportion of the Group's ownership interest in equity accounted investments is equal to their carrying amounts in the consolidated balance sheet

19. Inventories

	2020 £m	2019 £m
Consumables	7.9	7.0

20. Trade and other receivables

	2020 £m	2019 £m
Amounts receivable for the provision of services	427.3	369.9
Other receivables	33.6	27.0
Accrued income	16.9	15.1
Prepayments	17.6	12.6
	495.4	424.6

Credit risk

Where the Group contracts directly with the consumer of its services, the counterparty to the financial asset in question (the tradesperson or policyholder) is the primary driver of the Group's credit exposure. Where the Group acts as an insurance intermediary, the counterparty to the financial asset in question (the underwriter) is not the primary driver of the Group's credit exposure, rather the risk derives from the creditworthiness of the underlying policyholder. In both instances the relevant credit risk pools are numerous and diverse, thereby mitigating the significance of the Group's exposure to any single pool of risk. Of the at risk balance at the end of the year there is no significant concentration of credit risk within an individual pool, with risk exposure spread across a large number of policyholders and tradespersons. There are no risk exposures that represent more than 5% of the total balance at risk. Note 3 contains further detail regarding the potential risk if policy cancellations were to be 15% higher than expected.

Risks associated with the environments in which customers and policyholders operate may also influence the credit risk. Credit quality of customers is assessed by taking into account the current financial position of the counterparty, past experience and forward looking factors, including economic outlook. In determining the recoverability of a trade receivable, the Group considers any change in the credit quality from the date credit was initially granted up to the reporting date. The Group's exposures are further reduced by its ability, in the event of default, to cease providing member services or to take policyholders "off risk". A default on a trade receivable is when the counterparty fails to make contractual payments within the stated payment terms. Balances are written off when there is no reasonable expectation of recovery and carrying amounts represent the maximum potential credit exposure.

Trade receivables and accrued income are subject to impairment using the expected credit loss model. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss allowance for all trade receivables and contract assets. Consequently the IFRS 9 concept of a significant increase in credit risk is not applicable to the Group's expected credit loss calculations. To assess expected credit losses, balances are either assessed individually or grouped based on similar credit risk characteristics (e.g. type of customer or days past due). Expected losses are then measured using a provisioning matrix approach adjusted, where applicable, to take into account current macro-economic factors or counterparty specific considerations.

The Group trades only with creditworthy third parties and maintains a policy that, with the exception of our membership policyholders, customers who wish to trade on credit terms are reviewed for financial stability. The Group has provided fully for those balances that it does not expect to recover. This assessment has been undertaken by reviewing the status of all at risk balances in line with the process described above. The Directors believe that there is no further credit provision required in excess of the expected credit loss provision.

Included in the Group's exposure are balances with a carrying amount of £26.8m (FY19: £17.6m) which are past due at the reporting date but for which the Group has not provided for as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances.

Notes to financial statements

Year ended 31 March 2020

20. Trade and other receivables (continued)

Credit risk (continued)

Ageing of balances past due but not impaired:

	2020 £m	2019 £m
1 - 30 days	12.5	9.6
31 - 60 days	6.5	3.5
61 - 90 days	4.7	2.1
91 days +	3.1	2.4
Balance at 31 March past due but not impaired	26.8	17.6
Current	400.5	352.3
At 31 March	427.3	369.9

Movement in expected credit losses:

	2020 £m	2019 £m
At 1 April	1.6	1.5
Impairment losses recognised	4.9	1.8
Reclassification to refund liabilities	(2.3)	(1.0)
Amounts recovered during the year	(0.8)	(0.7)
Acquisition of subsidiaries	0.3	—
Exchange movements	0.1	—
At 31 March	3.8	1.6

Of the provision total £nil relates to accrued income (FY19: £nil)

Ageing of impaired balances:

	2020 £m	2019 £m
1 - 30 days	0.3	—
31 - 60 days	0.6	—
61 - 90 days	0.1	0.1
91 days +	0.6	0.5
Current/not yet due	2.2	1.0
At 31 March	3.8	1.6

Other receivables

Other receivables principally comprise deposits, tax balances due to the Group and other non-trading items. No expected credit loss allowance was recognised at 31 March 2020 or 31 March 2019 as there has been no experience of significant historic losses and no charge was reported in the income statement. No other receivable balances were considered past due but not impaired.

21. Cash and cash equivalents

	2020 £m	2019 £m
Cash and cash equivalents	131.2	72.6

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. Of the total cash and cash equivalents balance held £14.5m (FY19: £11.8m) is not available for use by the Group due to the restrictions stipulated within the Group's contractual relationships with underwriters. These balances principally relate to advances from underwriters received to fund claims payments. No client monies as defined under CASS 5 of the FCA Handbook are held.

With respect to credit risk arising from cash and cash equivalents, the Group's exposure arises from the probability of default of the counterparty. The Group manages the risk associated with cash and cash equivalents through depositing funds only with reputable and creditworthy banking institutions.

22. Trade and other payables

	2020 £m	2019 £m
Trade payables and accruals	155.5	148.8
Contingent consideration	0.9	—
Deferred consideration	4.7	5.9
Deferred income	51.7	49.3
Refund liabilities	24.3	17.7
Taxes and social security, excluding current tax	14.3	14.5
Amounts related to policyholders to be remitted to underwriters	92.7	76.8
Other payables	66.5	69.3
	410.6	382.3

Trade payables, other payables and accruals principally comprise amounts outstanding for trade purchases and other ongoing costs

Deferred and contingent consideration relate to future amounts payable, or potentially payable, on business combinations and asset purchases

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

Refund liabilities are made in respect of those policies that may be cancelled by the policyholder part way through the contractual term, which will affect the economic benefits that flow to the Group. The liability is made to ensure that the related revenue is not recognised at the point that the policy incepts.

Amounts related to policyholders to be remitted to underwriters principally relate to the cost of underwriting and Insurance Premium Tax for cash collected from policyholders and not yet transmitted.

23. Other financial liabilities

	2020 £m	2019 £m
Contingent consideration	10.5	—
Deferred consideration	8.8	8.9
Obligations under put options	31.3	11.0
Trade and other payables	1.7	3.4
	52.3	23.3

Deferred and contingent consideration relate to future amounts payable, or potentially payable, on business combinations and asset purchases

On 18 June 2019 HomeServe International Limited, a Group company, exercised its call option to acquire the remaining 30% of the shares in Habitissimo S.L., resulting in the de-recognition of the Group's obligation under put option to the non-controlling shareholders of Habitissimo S.L. (see note 30).

On 26 November 2019 HomeServe USA Holdings Corp., a Group company, entered into a series of put options in relation to the option to acquire the remaining 21% non-controlling interest in eLocal Holdings LLC, following HomeServe USA Holdings Corp's initial 79% acquisition (see note 16). The carrying values of the put options are provisional with measurement period assessment activities ongoing

Notes to financial statements

Year ended 31 March 2020

24. Provisions

Movements in provisions during the years ended 31 March 2020 and 31 March 2019 are disclosed below

	Restructuring costs £m	Other £m	Total £m
At 1 April 2018	—	—	—
Created	4.9	1.8	6.7
Utilised	(1.0)	—	(1.0)
At 1 April 2019	3.9	1.8	5.7
Created	1.6	0.8	2.4
Utilised	(4.5)	(1.2)	(5.7)
Transferred	—	(0.4)	(0.4)
At 31 March 2020	1.0	1.0	2.0

Where material, provisions are discounted based on an approximation for the time value of money. The amount and timing of the cash outflows are subject to variation. Provisions are principally expected to be utilised over the next twelve months.

Restructuring costs

Provisions for restructuring principally relate to the costs associated with programs in the Group's UK and HomeServe Labs businesses as discussed in note 7.

Other

Other provisions principally relate to the expected cost of residual value guarantees inherent within certain vehicle leases as well as certain warranty and legal provisions. Onerous contract provisions relating to lease agreements were transferred into the opening value of right-of-use assets at 1 April 2019 upon adoption of IFRS 16 (see note 26).

25. Borrowings

Bank and other loans

	2020 £m	2019 £m
Sterling denominated	27.5	27.2
Euro denominated	11.2	10.8
US dollar denominated	1.6	1.7
Due within one year	40.3	39.7
US dollar denominated	267.9	116.4
Euro denominated	27.5	10.9
Sterling denominated	245.2	209.1
Due after one year	540.6	336.4
Total bank and other loans	580.9	376.1

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

The weighted average interest rates paid on bank and other loans were as follows

	2020			2019		
	£ %	€ %	\$ %	£ %	€ %	\$ %
Fixed	3.2	—	5.0	3.1	—	4.9
Floating	1.7	1.0	2.9	1.6	0.9	3.3

All of the Group's borrowings are unsecured. The currencies in which the Group's borrowings are denominated reflect the geographical segments for which they have been used.

On 25 October 2018 the Group completed a financing transaction in the United States Private Placement market with issued notes amounting to \$125.0m and £80.0m as detailed below

Title	Principal	Maturity	Coupon
7yr GBP Senior Notes	£33.0m	13 December 2025	3.34%
7yr USD Senior Notes	\$29.0m	13 December 2025	4.83%
10yr GBP Senior Notes	£23.0m	13 December 2028	3.50%
10yr USD Senior Notes	\$49.0m	13 December 2028	4.92%
12yr GBP Senior Notes	£24.0m	13 December 2030	3.61%
12yr USD Senior Notes	\$47.0m	13 December 2030	5.02%

Counterparties provided funding for each Sterling and US Dollar note series on 13 December 2018. This provided the Group with £174.2m using the exchange rate of the deal price fixing of 0.7538 GBP: 1 USD on 20 September 2018. Ongoing foreign exchange risk on the US dollar denominated notes is naturally hedged against movements in US dollar denominated monetary assets on the balance sheet date.

The counterparties of the GBP loan notes issued in the prior year have taken out foreign exchange swap instruments to manage their market risk exposure to fluctuations in GBP/USD exchange rates. In the event that the Group defaults, or chooses to repay the loan notes prior to their maturity, it would be responsible for the gain or loss arising. Early repayment and default events are both currently considered by the Group to be remote and consequently the fair value of the Group's exposure is considered to be Enil.

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

- The Group has a £400m revolving credit facility with seven banks. This facility was taken out on 1 August 2017 and has an initial term of five years with the option to extend the term twice, by one year, up to a maximum of seven years. On 1 August 2019 the second one year option was exercised to extend the facility to 2024. The financial covenants associated with the facility are 'net debt to EBITDA of less than 3.0 times' (FY19: 3.0 times) and 'interest cover greater than 4.0 times EBITDA' (FY19: 4.0 times). Interest is charged at floating rates at margins of between 1.05% and 1.15% (FY19: 1.05% and 1.15%) above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk. At 31 March 2020, the Group had available £146.6m (FY19: £357.8m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.
- In FY20 the Group has secured a £50m revolving credit facility with one bank. This facility was taken out on 30 March 2020 with a termination date of 15 July 2024. The financial covenants associated with the facility are the same as the £400m revolving credit facility. Interest will initially be charged at a floating margin of 1.15% above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk. At 31 March 2020, the Group had available £50.0m of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.
- The Group has £110m of US Private Placements (FY19: £110m) consisting of a £60m placement taken out on 6 March 2017 at a fixed interest rate of 2.59% and a £50m placement taken out on 7 October 2015 at a fixed interest rate of 3.44%. Both facilities have a term of seven years and the financial covenants associated with both are the same as the £400m revolving credit facility.
- The Group maintains additional funding through a €12.5m/£11.1m (FY19: €25.0m/£21.5m) amortising term loan which was taken out on 13 September 2016 and has a term of 4 years. The financial covenants associated with this facility are the same as the £400m revolving credit facility and interest is charged at floating rates at margins of 0.9% above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk.
- The Group renewed a £25m (FY19: £25m) short-term loan on 31 January 2020 which has a term of six months. The financial covenants associated with the facility are 'net debt to EBITDA of less than 2.0 times' (FY19: 2.0 times) and 'interest cover greater than 4.0 times EBITDA' (FY19: 4.0 times). Interest is charged at floating rates at margins of 0.67% (FY19: 0.58%) above the relevant reference rate, thus exposing the Group to cash flow and interest rate risk.
- The Group has a \$5m facility in the USA, of which \$0.2m/£0.2m (FY19: \$1.9m / £1.5m) was drawn at 31 March 2020. The weighted average interest rate was 1.5% (FY19: 1.5%).

The Group has complied with all covenant requirements in the current and prior year. Information about liquidity risk is presented in note 27

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Year ended 31 March 2020

25. Borrowings (continued)

Reconciliation of movements in liabilities arising from financing

	Current liabilities		Non-current liabilities		Total £m
	Lease liabilities £m	Bank and other loans £m	Lease liabilities £m	Bank and other loans £m	
At 1 April 2018	0.5	38.0	0.4	256.7	295.6
Proceeds from new loans and borrowings	—	—	—	174.2	174.2
Repayment of borrowings	—	(11.1)	—	(87.8)	(98.9)
Repayment of lease principal	(0.6)	—	—	—	(0.6)
Interest paid	—	(2.1)	—	(6.4)	(8.5)
Costs associated with new bank and other loans raised	—	—	—	(1.6)	(1.6)
Total changes from cash flows	(0.6)	(13.2)	—	78.4	64.6
Other changes					
Foreign exchange	—	(0.2)	0.1	4.8	4.7
Interest expense	—	4.3	—	7.2	11.5
Additions	—	—	0.8	0.1	0.9
Transfers to/(from)	0.6	10.8	(0.6)	(10.8)	—
At 1 April 2019	0.5	39.7	0.7	336.4	377.3
Proceeds from additional borrowings on existing facilities	—	—	—	206.6	206.6
Repayment of borrowings	—	(11.1)	—	(12.9)	(24.0)
Repayment of lease principal	(12.4)	—	—	—	(12.4)
Interest paid	(1.5)	(4.4)	—	(12.3)	(18.2)
Costs associated with new bank and other loans raised	—	—	—	(0.8)	(0.8)
Total changes from cash flows	(13.9)	(15.5)	—	180.6	151.2
Other changes					
Transition on adoption of IFRS 16	11.5	—	41.1	—	52.6
Foreign exchange	0.5	0.3	0.6	9.9	11.3
Interest expense	0.5	4.6	1.0	13.1	19.2
Additions	3.2	—	11.5	—	14.7
Disposals	(0.3)	—	(1.0)	—	(1.3)
Acquisition of subsidiaries	0.8	—	2.6	11.8	15.2
Transfers to/(from)	11.3	11.2	(11.3)	(11.2)	—
At 31 March 2020	14.1	40.3	45.2	540.6	640.2

26. Leasing

Year ended 31 March 2020 (presented under IFRS 16)

Information about leases for which the Group is a lessee is presented below.

Right of use assets

	Properties £m	Motor vehicles £m	Other £m	Total £m
Cost				
Additions on transition to IFRS 16	43.3	7.6	0.2	51.1
Transfers from property, plant and equipment on transition to IFRS 16	—	4.9	—	4.9
Additions	6.7	8.0	—	14.7
Disposals	(1.0)	(0.7)	—	(1.7)
Acquisition of subsidiaries	3.2	0.2	—	3.4
Exchange movements	1.4	0.3	—	1.7
At 31 March 2020	53.6	20.3	0.2	74.1

Accumulated depreciation

At 1 April 2019	—	—	—	—
Transfers from property, plant and equipment on transition to IFRS 16	—	3.2	—	3.2
Charge for the year	8.5	5.6	0.1	14.2
Disposals	—	(0.4)	—	(0.4)
Exchange movements	0.1	0.2	—	0.3
At 31 March 2020	8.6	8.6	0.1	17.3

Carrying amount

At 31 March 2020	45.0	11.7	0.1	56.8
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Amounts recognised in the consolidated income statement are disclosed in notes 5 and 9 respectively. A maturity analysis of the contractual undiscounted cash flows associated with lease liabilities is provided in note 27. The total cash outflow for leases for the year ended 31 March 2020 was £13.9m, representing £12.4m of principal repayments and £1.5m of interest charges on outstanding lease liabilities.

Year ended 31 March 2019 (presented under IAS 17)

Operating lease commitments

	2019 £m
Within 12 months	12.6
In the second to fifth years inclusive	33.4
After five years	10.0
	56.0

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

Notes to financial statements

Year ended 31 March 2020

26. Leasing (continued)

Obligations under finance leases

	2019 £m
Amounts payable under finance leases:	
Amounts due for settlement within 12 months	0.5
Amounts due for settlement after 12 months in the second to fifth years inclusive	0.7
Present value of lease obligations	1.2
Minimum lease payments	
Within 12 months	0.5
In the second to fifth years inclusive	0.7
	1.2

During FY19 certain motor vehicles were held under finance leases as classified by IAS 17. The average lease term was 4.5 years and the average effective borrowing rate was 3.8%. Interest rates were fixed at the contract date. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All lease obligations are denominated in US dollars. The Group's obligations under finance leases are secured by the lessors' rights over the leased assets.

27. Financial instruments

Classification

Aside from the financial instruments discussed under 'financial instruments subsequently measured at fair value' below, all other financial assets and liabilities to which the Group is party are held at amortised cost and their carrying values approximate their fair values.

Financial instruments subsequently measured at fair value

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

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

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

	2020 £m	2019 £m
Level 2		
Assets classified as fair value through other comprehensive income		
Other investments (note 17)	5.6	9.2
Level 3		
Contingent consideration at fair value through profit and loss		
Current liabilities	(0.9)	—
Non-current liabilities	(10.5)	—

- Upon adoption of IFRS 9 certain financial assets of the Group were reclassified from available for sale, under IAS 39, to fair value through other comprehensive income.

The fair value of other investments has been determined by analysing the future outlook of the investee as well as reviewing valuations associated with recent comparable market transactions. The fair value of contingent consideration liabilities has been determined using forecasts of future performance of acquisitions discounted to present value. The movement in other investments versus the prior year primarily relates to the fair value movement recorded on the Group's investment in a smart thermostat manufacturer (see note 17).

The table below presents a reconciliation of recurring Level 3 fair value measurements

	2020 £m	2019 £m
Opening balance	—	20.6
Additions (note 16)	13.2	0.1
Payments	(1.1)	(10.7)
Unwinding of discount rate through the income statement	0.2	0.2
Exceptional fair value re-measurement gain (note 7)	—	(10.1)
Other fair value re-measurement gain	(1.5)	—
Extinguishment	—	(0.1)
Foreign exchange	0.6	—
	11.4	—

During the period between acquisition on 25 July 2019 and 31 March 2020 a significant revenue generating contract of Somgas Hogar S.L., a Group company, ceased. In light of these circumstances the fair value of the contingent consideration associated with the acquisition of Somgas was reduced by £1.5m.

If discount rates on contingent consideration were higher/lower than the Group's historical experience by 10%, the carrying amount would decrease/increase by £0.3m (FY19: £nil). The undiscounted range of outcomes associated with the contingent consideration payments has a floor of £1.8m (FY19: £nil). Payments above the floor vary based on a range of conditional performance metrics, for example a percentage commission based on the future revenues associated with certain products of an acquired business over a defined period.

Capital risk management

The Group manages its capital to ensure that entities in the Group are able to continue as going concerns while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 25, cash and cash equivalents in note 21 and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 28, 29 and the Group Statement of Changes in Equity.

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

	2020 £m	2019 £m
Attributable to equity holders of the parent	635.7	613.4
Cash and cash equivalents	131.2	72.6
Bank and other loans	580.9	376.1

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

Financial risk management objectives

The Group principally utilises cash and cash equivalents and bank and other loans for the purpose of raising finance for its operations. The Group also has various other financial instruments such as trade receivables and trade payables which arise directly from its operations.

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

Classification of financial instruments

The Group's financial assets and liabilities are disclosed in notes 20-23 and note 25. The main risks arising from the Group's financial instruments are interest rate risk, credit risk and liquidity risk. Foreign currency risk is minimised by the treasury borrowing approach set out in note 25.

Interest rate risk

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

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

Notes to financial statements

Year ended 31 March 2020

27. Financial instruments (continued)

Interest rate risk (continued)

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

	2020	2019
Increase in cost of borrowing	10%	10%
Reduction in profit before tax (£m)	0.2	0.1

Credit risk

Credit risk associated with trade receivables and accrued income contract assets is discussed in note 20. Credit risk related to cash and cash equivalents is discussed in note 21.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Group's Board which sets the framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows. Included in note 25 are details of the undrawn facilities that are available to the Group to reduce liquidity risk further, along with the weighted average interest rates paid on bank and other loans.

The maturity profile of the Group's financial liabilities based on contractual maturities is provided in the table below. Interest is payable on all bank and other loans. All cash flows are presented on an undiscounted basis.

	Bank and other loans £m	Trade payables £m	Other payables £m	Deferred and contingent consideration £m	Lease liabilities £m	Obligations under put options £m	Total £m
2020							
Under 2 months	2.5	98.0	27.5	0.8	2.0	—	130.8
Between 2 and 12 months	49.7	57.5	130.2	5.8	12.9	—	256.1
Between 1 and 2 years	16.1	—	0.6	6.4	12.4	23.8	59.3
Between 2 and 5 years	404.2	—	0.1	8.3	26.2	18.9	457.7
After 5 years	213.4	—	1.0	9.0	9.8	—	233.2
Total	685.9	155.5	159.4	30.3	63.3	42.7	1,137.1
	Bank and other loans £m	Trade payables £m	Other payables £m	Deferred and contingent consideration £m	Lease liabilities £m	Obligations under put options £m	Total £m
2019							
Under 2 months	2.1	81.0	42.1	5.0	0.1	—	130.3
Between 2 and 12 months	46.2	67.8	93.4	1.7	0.4	—	209.5
Between 1 and 2 years	23.0	1.6	1.0	1.6	0.5	12.1	39.8
Between 2 and 5 years	126.2	—	—	4.5	0.2	—	130.9
After 5 years	276.2	0.8	—	6.0	—	—	283.0
Total	473.7	151.2	136.5	18.8	1.2	12.1	793.5

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

28. Share capital

	2020 £m	2019 £m
Issued and fully paid 334,634,278 ordinary shares of 2 9/13p each (FY19 332,490,377)	9.0	9.0

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

During the period from 1 April 2019 to 31 March 2020 the Company issued 2,143,901 shares with a nominal value of 2 9/13p creating share capital and share premium with a combined value of £8.6m

During the period from 1 April 2018 to 31 March 2019 the Company issued 2,713,611 shares with a nominal value of 2 9/13p creating share capital and share premium with a combined value of £9.0m.

29. Reserves

Share premium

The share premium account represents consideration received or amounts, based on fair value, allocated to LTIP and One Plan participants on exercise for authorised and issued shares in excess of the nominal value of 2 9/13p (FY19: 2 9/13p)

Share incentive reserve

The share incentive reserve represents the cumulative charges to income under IFRS 2 'Share-based payments' on all share options and schemes granted, net of share option exercises.

Currency translation reserve

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

Investment revaluation reserve

The investment revaluation reserve represents the movement on revaluation of the Group's fair value through other comprehensive income investment disclosed in note 17.

Other reserves

The movement on other reserves during the current and preceding years is set out in the table below

	Capital redemption reserve £m	Merger reserve £m	Own shares reserve £m	Total other reserves £m
At 1 April 2018 and 1 April 2019	1.2	81.0	—	82.2
Purchase of own shares	—	—	(3.0)	(3.0)
At 31 March 2020	1.2	81.0	(3.0)	79.2

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

The merger reserve represents

- the issue on 6 April 2004 of 11.6m new shares relating to the acquisition of the minority interest held in the Group at that date. The reserve reflects the difference between the nominal value of shares at the date of issue of 12.5p and the share price immediately preceding the issue of 62.45p per share; and
- the issue on 17 November 2017 of 1.2m new shares relating to the acquisition of Checktrade. The reserve reflects the difference between the nominal value of shares at the date of issue of 2 9/13p and the share price immediately preceding the issue of 83.8p per share. The shares issued formed part of the consideration for the acquisition of the remaining 60% of the equity of Checktrade (taking the Group's overall holding to 100%) and therefore qualify for merger relief

The own shares reserve represents the cost of shares in HomeServe plc purchased in the market and held by the HomeServe plc Employee Benefit Trust. The shares are held to satisfy obligations under the Group's share option schemes and are recognised at cost. During the year 249,975 (FY19: nil) shares were repurchased at a cost of £3.0m (FY19: £nil) to fulfil awards made under share incentive schemes. No shares were transferred to individuals to satisfy awards (FY19: nil)

30. Non-controlling interests

Acquisition of subsidiary non-controlling interests – Habitissimo S.L.

On 18 June 2019 HomeServe International Limited, a Group company, executed its call option (written on 27 January 2017, the point at which it acquired a 70% controlling interest in Habitissimo S.L.), to acquire the outstanding 30% non-controlling interests in Habitissimo S.L. for cash consideration of €8.6m (£7.7m). The transaction increased HomeServe International Limited's interest in Habitissimo S.L. to 100% of the issued share capital and did not give rise to a change in control.

The transaction resulted in a gain in the consolidated income statement of £3.6m. This represents the difference between the consideration paid and the value of the option liability, being the potential cash payment of the non-controlling interests' corresponding put option to sell the remaining 30% of their shareholding, held on the balance sheet immediately prior to the transaction, net of directly attributable transaction costs. The gain has been classified as exceptional in the consolidated income statement due to its size, nature and incidence.

Notes to financial statements

Year ended 31 March 2020

30. Non-controlling interests (continued)

Acquisition of eLocal USA Holdings LLC

On 26 November 2019, HomeServe USA Holdings Corp, a Group company, acquired 79% of the share capital and obtained control of eLocal USA Holdings LLC (see note 16). eLocal is based in Philadelphia and operates across North America in the Group's Home Experts segment. The proportion of ownership interests held by non-controlling interests is 21%.

Summarised financial information in respect of the Group's non-controlling interests is set out below. In FY20 this relates to the 21% non-controlling interest in eLocal USA Holdings LLC and in FY19 to the 30% non-controlling interest in Habitissimo S.L. The summarised financial information below represents amounts before intra-group eliminations.

	2020 £m	2019 £m
Current assets	8.6	1.4
Non-current assets	64.9	4.8
Current liabilities	(18.5)	(5.7)
Non-current liabilities	(4.6)	—
Equity attributable to owners of the Company	50.4	0.5
Non-controlling interests	10.6	0.2

31. Notes to the cash flow statement

	2020 £m	2019 £m
Operating profit	158.6	152.6
Adjustments for		
Depreciation of property, plant and equipment	9.3	9.1
Depreciation of right-of-use assets	14.2	—
Amortisation of acquisition intangible assets	35.5	26.8
Amortisation of other intangible assets	38.3	23.1
Amortisation of contract costs	11.8	14.9
(Gain)/loss on disposal of property, plant and equipment, intangibles assets and contract costs	(0.8)	0.6
Non-exceptional impairment of goodwill and intangible assets	1.2	—
Fair value movement on contingent consideration	(1.5)	—
Share-based payments expense	7.2	9.8
Employee expenses associated with put options over non-controlling interests	1.0	—
Share of equity accounted investees results	2.1	0.3
Exceptional impairment charges	14.3	—
Other exceptional items	(6.7)	(4.6)
Operating cash flows before movements in working capital	284.5	232.6
Increase in inventories	(1.0)	(0.7)
(Increase)/decrease in receivables	(46.3)	104.0
Increase/(decrease) in payables and provisions	3.2	(133.7)
Net movement in working capital	(44.1)	(30.4)
Cash generated by operations	240.4	202.2
Income taxes paid	(30.2)	(31.7)
Interest paid (inclusive of payments on lease liabilities)	(18.2)	(8.5)
Net cash inflow from operating activities	192.0	162.0

32. Share-based payments

During the year ended 31 March 2020, the Group had four (FY19: three) share-based payment schemes, which are described below

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

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

ii) Special Value Creation Plan ('SVCP')

During the year a number of awards have been granted under the SVCP. This Plan provides for the grant of performance awards with performance conditions related to particular business units. The performance conditions include metrics such as EBIT, EBITDA, or household and customer targets. The vesting periods range from three and five years from the date of grant.

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

The SAYE scheme was open to all UK employees and provides for an exercise price equal to the closing quoted market price on the day before the date of grant, less a discretionary discount. The options can be exercised during a six month period following the completion of either a three or five year savings period. There were no awards made in the year (FY19: nil) as the scheme is now closed

iv) One Plan

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

	LTIP	SVCP	SAYE	One Plan
2020				
Number				
Outstanding at 1 April 2019	4,822,728	—	27,338	105,756
Granted	956,713	1,246,661	—	40,780
Lapsed	(7,526)	—	(1,879)	—
Forfeited	(309,596)	—	—	(14,432)
Exercised	(2,091,726)	—	(25,459)	(27,913)
Outstanding at 31 March 2020	3,370,593	1,246,661	—	104,191
Exercisable at 31 March 2020	7,967	—	—	—
Weighted average exercise price (£)				
Outstanding at 1 April 2019	—	—	3.35	—
Granted	—	—	—	—
Lapsed	—	—	3.35	—
Forfeited	—	—	—	—
Exercised	—	—	3.35	—
Outstanding at 31 March 2020	—	—	—	—
Exercisable at 31 March 2020	—	—	—	—
Exercise price of options outstanding at 31 March 2020	£0.00	£0.00	n/a	£0.00
Weighted average remaining contractual life	2	4	—	2
Weighted average fair value of options granted	£10.59	£11.99	n/a	£11.99

Notes to financial statements

Year ended 31 March 2020

32. Share-based payments (continued)

	LTIP	SAYE	One Plan
2019			
Number			
Outstanding at 1 April 2018	5,713,831	729,194	75,117
Granted	1,215,709	—	45,487
Lapsed	—	—	—
Forfeited	(87,557)	(30,659)	(10,800)
Exercised	(2,019,255)	(671,197)	(4,048)
Outstanding at 31 March 2019	4,822,728	27,338	105,756
Exercisable at 31 March 2019	4,995	27,338	—
Weighted average exercise price (£)			
Outstanding at 1 April 2018	—	3.18	—
Granted	—	—	—
Lapsed	—	—	—
Forfeited	—	3.27	—
Exercised	—	3.17	—
Outstanding at 31 March 2019	—	3.35	—
Exercisable at 31 March 2019	—	3.35	—
Range of exercise prices of options outstanding at 31 March 2019			
£0.00	4,822,728	—	105,756
£3.00 to £3.99	—	27,338	n/a
Weighted average remaining contractual life	2	1	2
Weighted average fair value of options granted	£9.12	—	£9.24

The weighted average share price at the date of exercise for share options exercised during the year was £11.72 (FY19: £9.13).

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

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	22% - 24%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk free interest rate	0.12% - 1.0%

Levels of early exercises and lapses are estimated using historical averages. Volatility is calculated by looking at the historical share price movements prior to the date of grant over a period of time commensurate with the remaining term for each award. In FY20 the Group recognised an IFRS 2 charge of £7.2m (FY19: £9.8m) related to equity-settled share-based payment transactions.

33. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all UK employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. In addition to the scheme in the UK, the Group operates a defined contribution retirement benefit scheme for North American employees.

The total cost charged to income of £6.9m (FY19: £6.7m) represents contributions payable to the schemes by the Group at rates specified in the rules of the schemes. At 31 March 2020, contributions of £0.8m (FY19: £0.8m) due in respect of the current reporting period had not been paid over to the schemes.

Defined benefit scheme

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

GMP equalisation

On 26 October 2018 a High Court case in the UK confirmed that Guaranteed Minimum Pensions (GMP) need to be equalised between male and female pension scheme members. The Court did not specify the method to use to equalise GMP but did set out a number of possible approaches. Prior to this date the Group had excluded GMP equalisation from the valuation of scheme liabilities. In FY19 an allowance was made resulting in a past service cost of £0.1m being recorded. In FY20 there have been no updated assessments received regarding the potential cost of the judgement and therefore the allowance included within the IAS 19 obligation remains unchanged.

The results of the actuarial valuation as at 31 March 2017 were updated to the accounting date by a qualified independent actuary in accordance with IAS 19. Re-measurements are recognised immediately through other comprehensive income.

	Valuation at	
	2020	2019
Key assumptions used:		
Discount rate at 31 March	2.5%	2.4%
Consumer price inflation	1.9%	2.5%
Retail price inflation	2.9%	3.5%
Expected rate of salary increases	1.9%	2.5%
Future pension increases	1.9%	2.5%
Life expectancy of female aged 60 at balance sheet date	29.0yrs	28.9yrs
Life expectancy of male aged 60 at balance sheet date	27.6yrs	27.5yrs

Pensions accounting entries are subject to judgement and volatility, as the majority of the assets are held within instruments with quoted market prices in an active market, whereas the present value of the obligation is linked to yields on AA-rated corporate bonds.

The following table illustrates the sensitivity of the defined benefit obligation to some of the significant assumptions as at 31 March 2020, all other things being equal.

	£m
Price inflation -0.5%	(2.4)
Price inflation +0.5%	2.8
Discount rate -0.5%	3.0
Discount rate +0.5%	(2.6)
Life expectancy -1 year	(0.9)
Life expectancy +1 year	0.9

Notes to financial statements

Year ended 31 March 2020

33. Retirement benefit schemes (continued)

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

	2020 £m	2019 £m
Current service cost	0.1	0.2
Past service cost	—	0.1
Interest income	(0.2)	(0.2)
Recognised in operating costs	(0.1)	0.1

The actual return on scheme assets was a loss of £2.6m (FY19: gain of £0.8m). The amount included in the balance sheet arising from the Group's obligations in respect of its defined benefit retirement scheme is as follows:

	2020 £m	2019 £m
Present value of defined benefit obligations	(27.1)	(31.1)
Fair value of scheme assets	37.4	37.5
Surplus in scheme recognised in the balance sheet in non-current assets	10.3	6.4

The net asset recognised in the balance sheet has not been limited as the Group believes that a refund of the surplus assets would be available to it following the final payment to the last beneficiary of the pension scheme.

Movements in the present value of defined benefit obligations were as follows.

	2020 £m	2019 £m
At 1 April	31.1	33.3
Employer's part of the current service cost	0.1	0.2
Interest cost	0.7	0.8
Actuarial (gains) / losses due to:		
Changes in financial assumptions	(3.7)	2.2
Changes in demographic assumptions	—	(0.8)
Experience adjustments on benefit obligations	(0.5)	(0.2)
Benefits paid	(0.6)	(4.5)
Past service cost	—	0.1
At 31 March	27.1	31.1

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

	2020 £m	2019 £m
At 1 April	37.5	38.0
Interest on Section assets	0.9	1.0
Actual return less interest on Section assets	(2.6)	0.8
Contributions from the employer	2.2	2.2
Benefits paid	(0.6)	(4.5)
At 31 March	37.4	37.5

The amount recognised outside the income statement in the statement of comprehensive income for FY20 is a gain of £1.6m (FY19: loss of £0.4m). The cumulative amount recognised outside the income statement at 31 March 2020 is a loss of £4.0m (FY19: loss of £5.6m).

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

	2020 £m	2019 £m
Equity instruments	13.0	15.2
Diversified growth fund	4.0	4.4
Liability driven investment funds	20.4	177
Other	—	0.2
	37.4	37.5

The majority of the assets are held within instruments with quoted market prices in an active market.

The estimated amounts of contributions expected to be paid to the scheme during the forthcoming financial year is £2.2m (FY20: actual £2.2m) plus any Pension Protection Fund levy payable

34. Related party transactions

The Group consists of a parent Company, HomeServe plc, incorporated in England and Wales, and a number of subsidiaries and associates held directly and indirectly by HomeServe plc, which operate and are incorporated internationally. There is no ultimate controlling party of HomeServe plc. Note 49 to the Company's separate financial statements lists details of the interests in subsidiaries and related undertakings. Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements (note 49).

Transactions with equity accounted investees

	2020 £m	2019 £m
Sales to associates	0.1	0.3
Purchases from associates	0.3	—
Sales to joint ventures	0.4	—
Purchases from joint ventures	0.3	—
Amounts owed to joint ventures	0.1	—

Transactions and balances principally relate to salaries, consultancy, contractor costs and marketing services.

Other related party transactions

During the year Group companies purchased services amounting to £0.3m (FY19: £0.5m) from companies that are not members of the Group but that are related parties as they are controlled by or connected to Richard Harpin, Chief Executive of the Group and a Director of the parent company of the Group. These services related to the use by the Group of private aircraft, including the provision of pilots and all related operating costs that are controlled by the related parties. The provision of such services were made at arm's length prices, which were approved by the Remuneration Committee.

The specific companies that were subject to the transactions were Harpin Limited (FY20: £0.2m, FY19: £0.2m), Pilot Services (GB) Limited (FY20: £nil, FY19: £0.1m) and Centreline AV Limited (formerly Siro Limited) (FY20: £0.1m, FY19: £0.2m). Amounts outstanding to all these companies on 31 March 2020 amounted to £nil (FY19: £0.1m). The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

In May 2020 HomeServe entered into a new structure to scale the French Home Experts business. The management team will now own 80% with HomeServe taking a 20% stake with an option to increase this in the future, once the business has achieved national scale.

Remuneration of key management personnel

The remuneration of the Directors and members of the Executive Committee, who are the key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration report.

	2020 £m	2019 £m
Short-term employee benefits	8.4	5.2
Post-employment benefits	0.3	0.3
Share-based payments expense	5.6	6.6
Termination benefits	—	0.2
	14.3	12.3

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

Company statement of comprehensive income

Year ended 31 March 2020

	Notes	2020 £m	2019 £m
Profit for the year		80.0	76.0
Items that will not be reclassified subsequently to profit and loss:			
Actuarial gain/(loss) on defined benefit pension scheme	33	1.6	(0.4)
Deferred tax (charge)/credit relating to actuarial re-measurements	42	(0.3)	0.1
Total other comprehensive income/(expense)		1.3	(0.3)
Total comprehensive income for the year		81.3	75.7

Company balance sheet

31 March 2020

	Notes	2020 £m	2019 £m
Non-current assets			
Other intangible assets	37	2.7	3.6
Property, plant and equipment	38	0.6	0.2
Right of use assets	44	1.6	—
Investment in subsidiaries	39	909.6	194.6
Deferred tax assets	42	—	1.0
Retirement benefit assets	33	10.3	6.4
		924.8	205.8
Current assets			
Trade and other receivables	40	38.1	480.3
Cash and cash equivalents	40	60.9	117.4
		99.0	597.7
Total assets		1,023.8	803.5
Current liabilities			
Trade and other payables	41	(11.0)	(12.9)
Current tax liabilities		(3.3)	(4.3)
Bank and other loans	43	(40.1)	(39.7)
Lease liabilities	44	(0.4)	—
		(54.8)	(56.9)
Net current assets		44.2	540.8
Non-current liabilities			
Bank and other loans	43	(540.3)	(334.9)
Lease liabilities	44	(1.1)	—
Deferred Tax liabilities	42	(0.1)	—
		(541.5)	(334.9)
Total liabilities		(596.3)	(391.8)
Net assets		427.5	411.7
Equity			
Share capital	28	9.0	9.0
Share premium account	29	189.3	180.7
Merger reserve	29	81.0	81.0
Share incentive reserve	46	19.8	21.2
Capital redemption reserve	29	1.2	1.2
Retained earnings		127.2	118.6
Total equity		427.5	411.7

As provided by s408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's profit for the year was £80.0m (FY19: £76.0m).

The financial statements of HomeServe plc were approved by the Board of Directors and authorised for issue on 19 May 2020. They were signed on its behalf by:

David Bower
Chief Financial Officer
19 May 2020

Registered in England No. 2648297

Company statement of changes in equity

Year ended 31 March 2020

	Share capital £m	Share premium account £m	Merger reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2019	9.0	180.7	81.0	21.2	1.2	118.6	411.7
Profit for the year	—	—	—	—	—	80.0	80.0
Other comprehensive income	—	—	—	—	—	1.3	1.3
Total comprehensive income	—	—	—	—	—	81.3	81.3
Dividends paid (note 11)	—	—	—	—	—	(73.5)	(73.5)
Issue of share capital	—	8.6	—	—	—	—	8.6
Share-based payments	—	—	—	7.2	—	—	7.2
Share options exercised	—	—	—	(8.6)	—	0.1	(8.5)
Tax on exercised share options	—	—	—	—	—	1.0	1.0
Deferred tax on share options	—	—	—	—	—	(0.3)	(0.3)
Balance at 31 March 2020	9.0	189.3	81.0	19.8	1.2	127.2	427.5

Year ended 31 March 2019

	Share capital £m	Share premium account £m	Merger reserve £m	Share incentive reserve £m	Capital redemption reserve £m	Retained earnings £m	Total equity £m
Balance at 1 April 2018	8.9	171.8	81.0	20.0	1.2	106.1	389.0
Profit for the year	—	—	—	—	—	76.0	76.0
Other comprehensive expense	—	—	—	—	—	(0.3)	(0.3)
Total comprehensive income	—	—	—	—	—	75.7	75.7
Dividends paid (note 11)	—	—	—	—	—	(65.0)	(65.0)
Issue of share capital	0.1	8.9	—	—	—	—	9.0
Share-based payments	—	—	—	8.8	—	—	8.8
Share options exercised	—	—	—	(7.6)	—	0.8	(6.8)
Tax on exercised share options	—	—	—	—	—	0.9	0.9
Deferred tax on share options	—	—	—	—	—	0.1	0.1
Balance at 31 March 2019	9.0	180.7	81.0	21.2	1.2	118.6	411.7

Company cash flow statement

Year ended 31 March 2020

	Notes	2020 £m	2019 £m
Net cash inflow/(outflow) from operating activities	47	419.2	(55.9)
Investing activities			
Interest received		14.1	1.9
Dividends received from subsidiary undertakings		114.0	85.0
Purchases of intangible assets		(2.2)	(0.1)
Purchases of tangible assets		(0.6)	(0.2)
Investment in subsidiary undertaking		(715.0)	—
Net cash (outflow)/inflow from investing activities		(589.7)	86.6
Financing activities			
Dividends paid		(73.5)	(65.0)
Proceeds on issue of share capital		0.1	2.2
Repayment of lease principal		(0.3)	—
Purchase of own shares		(3.0)	—
New bank and other loans raised		—	174.2
Costs associated with new bank and other loans raised		(0.8)	(1.6)
Movement in bank and other loans		193.3	(98.6)
Net cash generated by financing activities		115.8	11.2
Net movement in cash and cash equivalents		(54.7)	41.9
Cash and cash equivalents at beginning of year		117.4	75.6
Effect of foreign currency exchange rate changes		(1.8)	(0.1)
Cash and cash equivalents at end of year	40	60.9	117.4

Notes to Company financial statements

Year ended 31 March 2020

Company only

The following notes 35 to 49 relate to the Company only position and performance for the year ended 31 March 2020

35. Significant accounting policies

As provided by s408 of the Companies Act 2006, the Company has not presented its own income statement. The Company's profit for the year was £80.0m (FY19: £76.0m).

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

The financial statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in note 2 to the consolidated financial statements except that investments in subsidiaries are stated at cost less impairment. Furthermore, included within amounts receivable from Group companies are amounts advanced to the HomeServe plc Employee Benefit Trust for the purchase of shares. The shares are held in trust to satisfy obligations under share options schemes and are recognised at cost.

None of the critical accounting judgements and key sources of estimation uncertainty disclosed in note 3 apply to the Company. There are no critical accounting judgements or key sources of estimation uncertainty.

36. Other information

Staff remuneration

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

	2020 number	2019 number
UK (all administrative roles)	81	75

	2020 £m	2019 £m
<i>Their aggregate remuneration comprised:</i>		
Wages and salaries	10.7	11.0
Social security costs	1.3	1.3
Other pension costs (note 33)	0.4	0.2
	12.4	12.5

Audit fees

	2020 £000	2019 £000
Fees payable to the Company's auditor for the audit of the Company's financial statements	153	72
Total audit fees	153	72

37. Other intangible assets

	Trademarks & access rights £m	Software £m	Total intangibles £m
Cost			
At 1 April 2018	1.8	7.3	9.1
Additions	—	0.1	0.1
Transfer	0.7	(0.7)	—
At 1 April 2019	2.5	6.7	9.2
Additions	0.4	1.8	2.2
Disposals	—	(3.2)	(3.2)
Transfers	—	0.1	0.1
At 31 March 2020	2.9	5.4	8.3
Accumulated amortisation			
At 1 April 2018	0.8	4.0	4.8
Charge for the year	—	0.8	0.8
At 1 April 2019	0.8	4.8	5.6
Charge for the year	0.3	1.9	2.2
Impairment	1.0	—	1.0
Disposals	—	(3.2)	(3.2)
At 31 March 2020	2.1	3.5	5.6
Carrying amount			
At 31 March 2020	0.8	1.9	2.7
At 31 March 2019	1.7	1.9	3.6

38. Property, plant and equipment

	Leasehold improvements £m	Computer equipment £m	Motor Vehicles £m	Total tangible assets £m
Cost				
At 1 April 2018	0.3	0.2	—	0.5
Additions	—	0.2	—	0.2
At 1 April 2019	0.3	0.4	—	0.7
Additions	0.4	0.1	0.1	0.6
Disposals	(0.1)	(0.2)	—	(0.3)
Transfers	—	(0.1)	—	(0.1)
At 31 March 2020	0.6	0.2	0.1	0.9
Accumulated depreciation				
At 1 April 2018	0.2	0.2	—	0.4
Charge for the year	—	0.1	—	0.1
At 1 April 2019	0.2	0.3	—	0.5
Charge for the year	0.1	—	—	0.1
Disposals	(0.1)	(0.2)	—	(0.3)
At 31 March 2020	0.2	0.1	—	0.3
Carrying amount				
At 31 March 2020	0.4	0.1	0.1	0.6
At 31 March 2019	0.1	0.1	—	0.2

Notes to Company financial statements

Year ended 31 March 2020

39. Subsidiaries

Details of the Company's subsidiaries at 31 March 2020, including the name, address, country of incorporation and proportion of ownership interest is given in note 49

	£m
Cost and net book value	
At 1 April 2018 and 1 April 2019	194.6
Additions	715.0
At 31 March 2020	909.6

The addition in the year of £715.0m (FY19: £nil) relates to a recapitalisation exercise that injected £715.0m into HomeServe Enterprises Limited. At each balance sheet date the Company reviews the carrying amount of the investment in HomeServe Enterprises Limited to determine whether there is any indication of an impairment loss. Given that HomeServe Enterprises Limited owns directly or indirectly all subsidiaries in the HomeServe plc Group, a comparison is made between the carrying value of the investment in HomeServe Enterprises Limited and the market capitalisation of HomeServe plc.

40. Financial assets

Trade and other receivables

	2020 £m	2019 £m
Amounts receivable from Group companies (note 49)	36.6	479.1
Other receivables	0.8	0.9
Prepayments and accrued income	0.7	0.3
	38.1	480.3

Trade receivables

The Company has a policy for providing fully for those receivable balances that it does not expect to recover. This assessment has been undertaken in accordance with the IFRS 9 expected credit loss model as explained more fully in note 20. The reduction in receivables from Group companies in the year is due to the recapitalisation exercise carried out in FY20.

Ageing of past due but not impaired receivables:

	2020 £m	2019 £m
Current	36.6	479.1
At 31 March	36.6	479.1

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

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

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

Cash balances and cash equivalents

Cash balances and cash equivalents of £60.9m (FY19: £117.4m) comprise cash held by the Company and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates to their fair value.

41. Financial liabilities

Trade and other payables

	2020 £m	2019 £m
Trade payables and accruals	9.1	10.9
Amounts payable to Group companies	0.4	0.1
Taxes and social security, excluding corporation tax	1.5	1.9
	11.0	12.9

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 9 days (FY19: 17 days).

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

42. Deferred tax

The following are the major deferred tax assets/(liabilities) recognised by the Company and movements thereon:

	Retirement benefit obligations £m	Share schemes £m	Timing differences £m	Total £m
At 1 April 2018	(0.9)	1.9	(0.6)	0.4
(Charge)/credit to income	(0.4)	—	0.8	0.4
Credit to equity	—	0.1	—	0.1
Credit to comprehensive income	0.1	—	—	0.1
At 1 April 2019	(1.2)	2.0	0.2	1.0
Charge to income	(0.4)	(0.1)	—	(0.5)
Charge to equity	—	(0.3)	—	(0.3)
Charge to comprehensive income	(0.3)	—	—	(0.3)
At 31 March 2020	(1.9)	1.6	0.2	(0.1)

43. Bank and other loans

	2020 £m	2019 £m
Bank loans	40.1	39.7
Due within one year	40.1	39.7
Bank and other loans	540.3	334.9
Due after one year	540.3	334.9
Total bank and other loans	580.4	374.6

Bank loans due in less than one year of £40.1m (FY19: £39.7m) include the short-term loan of £25m and £11.2m of the €25m amortising loan. The principal features of these loans are set out in note 25.

Bank and other loans due after more than one year comprise of the drawn loans from the revolving credit facility and the US Private Placements. The principal features of these loans are set out in note 25.

The weighted average of interest rates paid are set out in note 25.

Notes to Company financial statements

Year ended 31 March 2020

43. Bank and other loans (continued)

Reconciliation of movements in liabilities arising from financing

	Current liabilities Bank and other loans £m	Non-current liabilities Bank and other loans £m	Total £m
At 1 April 2018	376	255.2	292.8
Proceeds from new loans and borrowings	—	174.2	174.2
Repayment of borrowings	(10.7)	(87.9)	(98.6)
Interest paid	(2.1)	(6.1)	(8.2)
Costs associated with new bank and other loans raised	—	(1.6)	(1.6)
Total changes from cash flows	(12.8)	78.6	65.8
Other changes			
Foreign exchange	(0.2)	5.0	4.8
Interest expense	4.3	6.9	11.2
Transfers to/(from)	10.8	(10.8)	—
At 1 April 2019	39.7	334.9	374.6
Proceeds from additional borrowings on existing facilities	—	204.3	204.3
Repayment of borrowings	(11.0)	—	(11.0)
Interest paid	(4.3)	(11.6)	(15.9)
Costs associated with new bank and other loans raised	—	(0.8)	(0.8)
Total changes from cash flows	24.4	526.8	551.2
Other changes			
Foreign exchange	0.2	12.1	12.3
Interest expense	4.5	12.4	16.9
Transfers to/(from)	11.0	(11.0)	—
At 31 March 2020	40.1	540.3	580.4

44. Leasing

The following disclosures about leases, for which the Company is a lessee, are presented in accordance with IFRS 16 for the year ended 31 March 2020

Right of use assets	Properties £m	Motor vehicles £m	Total £m
Cost			
Additions on transition to IFRS 16	0.1	—	0.1
Additions	1.7	0.1	1.8
At 31 March 2020	1.8	0.1	1.9
Accumulated depreciation			
At 1 April 2019	—	—	—
Charge for the year	0.3	—	0.3
At 31 March 2020	0.3	—	0.3
Carrying amount			
At 31 March 2020	1.5	0.1	1.6

Lease liabilities	2020 £m	2019 £m
Leases	0.4	—
Due within one year	0.4	—
Leases	1.1	—
Due after one year	1.1	—
Total lease liabilities	1.5	—

A maturity analysis of the contractual undiscounted cash flows associated with lease liabilities is provided in note 45. The total cash outflow for leases for the year ended 31 March 2020 was £0.3m, representing £0.3m of principal repayments and £nil of interest charges on outstanding lease liabilities.

45. Financial instruments

The tables below set out the classification of financial instruments in the statement of financial position.

Financial assets	2020 £m	2019 £m
Amortised cost	98.3	597.4

Financial liabilities	2020 £m	2019 £m
Other financial liabilities at amortised cost	591.4	385.6

Principal financial instruments

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

- cash and cash equivalents
- bank loans, revolving credit facilities and Private Placements
- trade receivables
- other receivables
- trade payables
- other payables.

Capital risk management

The Company manages its capital to ensure that it is able to continue as a going concern while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Company consists of debt, which includes the borrowings disclosed in note 43, cash and cash equivalents disclosed in note 40 and equity comprising issued capital, reserves and retained earnings as disclosed in this note and notes 28, 29 and the Company Statement of Changes in Equity.

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

	2020 £m	2019 £m
Shareholders' funds	427.5	411.7
Cash and cash equivalents	60.9	117.4
Bank and other loans	580.4	374.6

Financial risk management objectives

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

The main risks arising from the Company's financial instruments are interest rate risk, foreign currency risk and liquidity risk.

Interest rate risk

The Company's exposure to the risk of changes in market interest rates primarily relates to the Company's long-term debt requirements with floating interest rates. The Company's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Company's exposure to interest rate risk is closely aligned to that of the Group, more details of which can be found in note 25.

Notes to Company financial statements

Year ended 31 March 2020

45. Financial instruments (continued)

Foreign currency risk

The Company has exposure to fluctuations in foreign currencies due to borrowings made to fund investments in its overseas subsidiaries which are affected by foreign exchange movements.

The carrying amount of the Company's foreign currency denominated monetary assets and monetary liabilities at the year end are set out in the table below

	Assets		Liabilities	
	2020 £m	2019 £m	2020 £m	2019 £m
Euro	16.8	—	(43.3)	(28.2)
US dollar	9.8	186.3	(269.4)	(116.5)

The following table demonstrates the sensitivity to a reasonably possible change of 10% increase in sterling against the relevant foreign currencies, with all other variables held constant, of the Company's profit after tax and equity.

	2020	2019
Increase in £/\$ exchange rate	10%	10%
Effect on profit after tax (£m)	19.1	(5.1)
Effect on equity (£m)	19.1	(5.1)
Increase in £/€ exchange rate	10%	10%
Effect on profit after tax (£m)	1.9	2.1
Effect on equity (£m)	1.9	2.1

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Company's Board which sets the framework for the management of the Company's short, medium and long-term funding and liquidity management requirements. The Company manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows. Included in note 25 are details of the undrawn facilities that are available to the Company and the Group to further reduce liquidity risk

The maturity profile of the Company's financial liabilities is provided in the table below. The revolving credit facility is drawn down and associated interest is settled on a monthly basis. The principal is included in the table below when the facility is due to expire. All cash flows are presented on an undiscounted basis

	Lease liabilities £m	Bank and other loans £m	Trade, other and group payables £m	Total £m
2020				
Under 2 months	—	2.5	3.5	6.0
Between 2 and 12 months	0.4	49.5	5.8	55.7
Between 1 and 2 years	0.4	15.8	—	16.2
Between 2 and 5 years	0.8	404.3	—	405.1
Over 5 years	—	213.4	—	213.4
Total	1.6	685.5	9.3	696.4
		Bank and other loans £m	Trade, other and group payables £m	Total £m
2019				
Under 2 months		1.8	3.5	5.3
Between 2 and 12 months		46.1	7.5	53.6
Between 1 and 2 years		22.7	—	22.7
Between 2 and 5 years		125.4	—	125.4
Over 5 years		276.0	—	276.0
Total		472.0	11.0	483.0

It is, and has been throughout the year under review, the Company's policy that no speculative trading in financial instruments shall be undertaken

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

	2020	2019
Increase in the cost of borrowing	10%	10%
Reduction in profit before tax (£m)	0.2	0.1

46. Share incentive reserve

	£m
At 1 April 2018	20.0
Share-based payment charges in the year	8.8
Share options exercised in year	(7.6)
At 1 April 2019	21.2
Share-based payment charges in the year	7.2
Share options exercised in year	(8.6)
At 31 March 2020	19.8

47. Notes to the cash flow statement

	2020 £m	2019 £m
Operating loss	(24.0)	(20.3)
Adjustments for		
Amortisation of intangible assets	2.2	0.8
Depreciation of property, plant and equipment	0.1	0.1
Depreciation of right of use assets	0.3	—
Exceptional impairment charge	1.0	—
Amounts received from subsidiary undertakings for share incentive schemes and other items	6.2	6.1
Share-based payment expense	2.4	3.6
Operating cash flows before movements in working capital	(11.8)	(9.7)
Decrease/(Increase) in receivables	441.6	(39.7)
Decrease in payables	(0.7)	(1.8)
Movements in working capital	440.9	(41.5)
Cash used in operations	429.1	(51.2)
Income taxes received	6.0	3.5
Interest paid	(15.9)	(8.2)
Net cash inflow/(outflow) from operating activities	419.2	(55.9)

Notes to Company financial statements

Year ended 31 March 2020

48. Share-based payments

During the year ended 31 March 2020, the Company had three (FY19: three) share-based payment arrangements, which are described in note 32.

	LTIP	SVCP	One Plan
2020			
Number			
Outstanding at 1 April 2019	1,790,863	—	7,341
Granted	331,926	233,332	2,146
Transfer	—	—	1,339
Lapsed	(3,216)	—	—
Forfeited	(160,880)	—	(511)
Exercised	(740,233)	—	(3,303)
Outstanding at 31 March 2020	1,218,460	233,332	7,012
Exercisable at 31 March 2020	3,864	—	—
Weighted average exercise price (£)			
Outstanding at 1 April 2019	—	—	—
Transfer	—	—	—
Forfeited	—	—	—
Exercised	—	—	—
Outstanding at 31 March 2020	—	—	—
Exercisable at 31 March 2020	—	—	—
Range of exercise price of options outstanding at 31 March 2020			
£2.00 to £2.99	—	—	—
£3.00 to £3.99	—	—	—
Weighted average remaining contractual life	2	4	1
Weighted average fair value of options granted in 2020	£10.58	£12.47	£11.99

	LTIP	SAYE	One Plan
2019			
Number			
Outstanding at 1 April 2018	2,117,178	24,249	5,390
Granted	515,865	—	2,619
Transfer	4,810	—	(207)
Forfeited	—	(418)	(237)
Exercised	(846,990)	(23,831)	(224)
Outstanding at 31 March 2019	1,790,863	—	7,341
Exercisable at 31 March 2019	—	—	—
Weighted average exercise price (£)			
Outstanding at 1 April 2018	—	£3.24	—
Transfer	—	—	—
Forfeited	—	£3.35	—
Exercised	—	£3.24	—
Outstanding at 31 March 2019	—	—	—
Exercisable at 31 March 2019	—	—	—
Range of exercise price of options outstanding at 31 March 2019			
£2.00 to £2.99	—	—	—
£3.00 to £3.99	—	—	—
Weighted average remaining contractual life	2	—	2
Weighted average fair value of options granted in 2019	£9.12	—	£9.24

The weighted average share price at the date of exercise for share options exercised during the year was £11.77 (FY19: £9.01)

The estimated fair values are calculated by applying a Black-Scholes option pricing model for One Plan and SAYE and Monte Carlo simulations for the LTIP. The assumptions used in the models are set out in note 32.

In FY20 the Company recognised an IFRS 2 charge of £2.4m (FY19: £3.6m) related to equity-settled share-based payment transactions.

Notes to Company financial statements

Year ended 31 March 2020

49. Related party transactions

During the year the Company purchased services amounting to £0.3m (FY19: £0.5m) from companies that are not members of the Group but that are related parties as they are controlled by or connected to Richard Harpin, Chief Executive of the Group and a Director of the parent company of the Group. These services related to the use by the Group of private aircraft, including the provision of pilots and all related operating costs that are controlled by the related parties. The provision of such services were made at arm's length prices, which were approved by the Remuneration Committee

The specific companies that were subject to the transactions were Harpin Limited (FY20: £0.2m, FY19: £0.2m), Pilot Services (GB) Limited (FY20: £nil, FY19: £0.1m) and Centreline AV Limited (formerly Siro Limited) (FY20: £0.1m, FY19: £0.2m). Amounts outstanding to all these companies on 31 March 2020 amounted to £nil (FY19: £0.1m). The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received

In respect of transactions with subsidiaries of the Group, the Company provided goods of £nil (FY19: £nil), provided services of £6.8m (FY19: £6.2m), lent monies to of £40.2m (FY19: £43.7m) and borrowed monies from of £nil (FY19: £nil). Amounts due to subsidiary companies total £0.4m (FY19: £0.1m). Amounts owed by subsidiary companies total £36.6m (FY19: £479.1m) which principally relate to intercompany loans receivable. The Company provided services of £0.1m (FY19: £0.3m) to associates during the year and £0.4m (FY19: £nil) to joint ventures during the year. The Company purchased services of £0.3m (FY19: £nil) from joint ventures during the year. There are no amounts outstanding in either year with associates and £0.1m outstanding (FY19: £nil) with joint ventures.

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

Remuneration of key management personnel

The remuneration of the Directors, who are the key management personnel of the Company, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures. Further information about the remuneration of individual Directors is provided in the audited part of the Remuneration report.

	2020 £m	2019 £m
Short-term employee benefits	3.4	3.6
Post-employment benefits	0.2	0.3
Share-based payments expense	2.8	3.6
Termination benefits	—	0.1
	6.4	7.6

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

Interests held in related companies

All interests in the companies listed below are owned by HomeServe plc and all interests held are in the ordinary share capital. All companies operate principally in their country of incorporation

Name of legal entity	Activity	Place of incorporation ownership (or registration) and operation	Proportion of voting interest and power %	Registered address
Directly held entities of HomeServe plc:				
HomeServe Enterprises Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
Indirectly held entities of HomeServe plc:				
Holding Companies				
HomeServe Assistance Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe International Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe GB Limited (No. 5536994)†	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe France Holding SAS	Trading	France	100	9, rue Anna Marly, CS 80510, 69007 Lyon Cedex 7
HomeServe Energy Services SAS	Trading	France	100	9, rue Anna Marly, CS 80510, 69007 Lyon Cedex 7
HomeServe USA Holdings Corp	Trading	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe Beteiligungs GmbH	Trading	Germany	100	Rheinstr 30-32, 65185, Wiesbaden
Sherrington Mews Limited	Trading	England	100	Building 2000, Lakeside North Harbour, Western Road, Portsmouth, PO6 3EN

Name of legal entity	Activity	Place of incorporation ownership (or registration) and operation	Proportion of voting interest and power %	Registered address
UK & Ireland				
HomeServe Membership Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Servowarm Limited (No. 560810) ¹	Non-Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe At Home Limited (No. 4186398) ¹	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Vetted Limited	Trading	England	100	Building 2000, Lakeside North Harbour, Western Road, Portsmouth, PO6 3EN
247999 Limited (No. 7183505) ¹	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Home Energy Services Limited (No. 8419975) ⁴	Non-Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Manufacturer Warranties Limited (No. 4079068) ¹	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Heating Services Limited (No. 3468609) ⁴	Non-Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Trustees Limited (No. 3349817) ¹	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe France Limited (No. 9469168) ⁴	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe USA Limited (No. 9468635) ⁴	Trading	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Europe Limited	Non-Trading	Ireland	100	25-28 Adelaide Road, Dublin 2
HomeServe America Limited	Non-Trading	Ireland	100	25-28 Adelaide Road, Dublin 2
HomeServe Gas Limited (No. 2248585) ¹	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Home Service (GB) Limited (No. 3546370) ¹	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Fastfix Plumbing and Heating Limited (No. 3120932) ¹	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Care Solutions Limited (No. 3228902) ¹	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Warranties Limited (No. 3156861) ¹	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
Multimaster Limited (No. 3670180) ¹	Dormant	England	100	Cable Drive, Walsall, WS2 7BN
HomeServe Labs Limited ⁶	Trading	England	100	Cable Drive, Walsall, WS2 7BN
Help-Link UK Limited	Trading	England	100	3310 Century Way, Thorpe Park, Colton, Leeds, LS15 8ZB
Energy Insurance Services Limited	Trading	England	100	Cable Drive, Walsall, WS2 7BN
Continental Europe				
HomeServe SAS	Trading	France	100	9, rue Anna Marly, CS 80510, 69007 Lyon Cedex 7
Electro Gaz Service SA	Trading	France	100	17, rue Bavastro, 06300, Nice
ID Energies SAS ⁵	Trading	France	100	ZA d'Armanville, route de la brique, 50700 Valognes
Sylvain Brun Froid SAS ⁵	Trading	France	100	Les Bonnets, 73160 Saint-Cassin
HomeServe On Demand SAS	Trading	France	100	9, rue Anna Marly, CS 80510, 69007 Lyon Cedex 7
HomeServe Home Experts SAS	Trading	France	100	9, rue Anna Marly, CS 80510, 69007 Lyon Cedex 7
Societe VB Gaz	Trading	France	100	1 rue George Sand, 94000 Creteil
HomeServe Asistencia Spain SAU ²	Trading	Spain	100	Camino del Cerro de los Gamos 1, Parque empresarial – Edificios 5 y 6, 28224 Pozuelo de Alarcon
HomeServe Spain SLU ²	Trading	Spain	100	Camino del Cerro de los Gamos 1, Parque empresarial – Edificios 5 y 6, 28224 Pozuelo de Alarcon
Seguragua SAU ²	Trading	Spain	100	Camino del Cerro de los Gamos 1, Parque empresarial – Edificios 5 y 6, 28224 Pozuelo de Alarcon
Habitissimo S.L. ²	Trading	Spain	100	c/ Rita Levi, Edificio Blue - Parc Bit CP 07121, Palma de Mallorca, Balears
Bit Advanced Marketing S.L. ²	Trading	Spain	100	Passeig Mallorca 17C, 07011 Palma de Mallorca
Oscagas Hogar SLU	Trading	Spain	100	Rafael Alberti N° 8, Zaragoza CP 50018

Notes to Company financial statements

Year ended 31 March 2020

49. Related party transactions (continued)

Interests held in related companies (continued)

Name of legal entity	Activity	Place of incorporation ownership (or registration) and operation	Proportion of voting interest and power %	Registered address
Somgas Hogar S.L. ^b	Trading	Spain	100	Paseo Can Feu Num14, 08205 Sabadell, Barcelona
Linacal S.L. ^b	Trading	Spain	100	Polig. Las Labradas, C. Estella S/N, 31500 Tudela, Navarra
Tecno Arasat Servicios de Mantenimiento S.L. ^b	Trading	Spain	100	Calle Barón de eroles num 31, 2400 Monzón, Huesca
Servicios Tecnicos Sate S.L. ^b	Trading	Spain	100	Calle Anselmo Pie Sopena 1-Local 4, Esquina Avenida Monegros No 31, Huesca
North America				
HomeServe USA Corp	Trading	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Repair Management Corp	Trading	USA	100	1232 Premier Drive, Chattanooga, TN 37421
HomeServe USA Repair Management (Florida)	Trading	USA	100	1232 Premier Drive, Chattanooga, TN 37421
Leakguard Inc	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
Leakguard Repair Services Inc	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Repair Management Corp (Iowa)	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Repair Management Corp (California)	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Repair Management Corp (Virginia)	Dormant	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Repair Management Corp (Wisconsin)	Trading	USA	100	601 Merritt 7, Norwalk, CT 06851
HomeServe USA Energy Services LLC	Trading	USA	100	500 Bi-County Blvd, Farmingdale, NY 11735
HomeServe USA Energy Services (New England) LLC	Trading	USA	100	5 Constitution Way, Woburn, MA 01801
LI PH Enterprises LLC	Trading	USA	49	1307 Manatuck Blvd, Bay Shore, NY 11706
NYC PH Enterprises LLC	Trading	USA	49	4295 Arthur Kill Rd, Staten Island, NY 10309
SJESP Plumbing Services LLC	Trading	USA	90	420 N. 2nd Road, Unit 1, Hammonton NJ 08037
USP Holding 1 LLC	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
USP Holdings 2 LLC	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Utility Service Partners Inc	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Utility Service Partners Private Label, Inc.	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
USP Water Heater Rentals LLC	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Utility Service Partners Private Label of Virginia, Inc	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Columbia Service Partners Inc	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Service Line Warranties of America, Inc - Delaware	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Service Line Warranties of America, Inc - California	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Service Line Warranties of Canada Holdings, Inc.	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Columbia Service Partners of Pennsylvania, Inc	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Columbia Service Partners of Kentucky, Inc	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Columbia Service Partners of Ohio, Inc.	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Columbia Service Partners of West Virginia, Inc	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317
Service Line Warranties of Canada Inc	Trading	USA	100	4000 Town Center Blvd, Suite 400, Canonsburg, PA 15317

Name of legal entity	Activity	Place of incorporation ownership (or registration) and operation	Proportion of voting interest and power %	Registered address
HomeServe HVAC LLC	Trading	USA	100	601 Merritt 7, Norwalk, CT 06851
Gregg Mechanical Corp	Trading	USA	100	198 Pulaski Avenue, Staten Island, New York 10303
Geisel Heating and Air Conditioning Inc	Trading	USA	100	633 Broad Street, Elyria, Ohio 44035
Cropp-Metcalf Air Conditioning and Heating Company	Trading	USA	100	8421 Hilltop Road, Fairfax, VA 22031
Centriq Technology Inc. ³	Trading	USA	20	180 Sutter St, San Francisco, CA 94104, USA
American Home Guardian Inc. ⁴	Trading	USA	100	1839 S Alma School Rd, Mesa, AZ 85210
Nations Preferred Home Warranty Inc. ⁵	Trading	USA	100	3530 Forest Lane, Dallas, TX 75234
Fab Electric Inc. ⁵	Trading	USA	100	25-B Chestnut St Gaithersburg, MD 20877
Newcore Inc. ⁶	Trading	USA	100	6236 Brynwood Dr, Medina, OH 44256
Crawford Services, Inc. ⁶	Trading	USA	100	1405 Avenue T, Grand Prairie, TX 75050
eLocal Holdings LLC. ⁶	Trading	USA	79	1100 East Hector Street, Suite 101, Conshohocken, PA 19428
eLocal USA LLC. ⁶	Trading	USA	79	1100 East Hector Street, Suite 101, Conshohocken, PA 19428
CityGrid Media LLC. ⁶	Trading	USA	79	1100 East Hector Street, Suite 101, Conshohocken, PA 19428
Asia				
HomeServe Japan Corporation. ³	Trading	Japan	50	MH-KIYA BLDG 12-1, Mikuracho Kanda, Chiyoda-ku, Tokyo 101-0038 Japan
Australia				
Home Service Direct Pty Limited	Non-Trading	Australia	100	50 Queen Street, Melbourne, VIC 3000

- The Group has taken advantage of the exemption from audit of the dormant subsidiaries registered in England under s480 of the Companies Act 2006. The registered numbers of the dormant subsidiaries are provided above.
- ³ These companies have a 31 December year end due to the statutory reporting requirements in Spain.
- ⁴ The Group includes equity accounted investments, please refer to note 18 for full details.
- ⁵ These companies qualify for an exemption to audit for non-dormant entities under the requirements of s479A of the Companies Act 2006. As such, no audit has been conducted for these companies in the current financial year. The registered numbers of the audit exempt subsidiaries are provided above.
- ⁶ These companies were acquired during 2020. Please refer to note 16 for full details.
- ⁷ This company has a 30 September year end due to local management requirements.

Five year summary

Continuing operations

Unaudited	2020 £m	2019 £m	2018 £m	2017 £m	2016 £m
External revenue					
UK	365.1	384.4	357.7	319.3	286.0
North America	429.5	333.4	282.1	227.8	152.6
France	111.8	104.6	100.0	91.1	77.4
Spain	154.1	140.8	141.3	130.2	97.5
New Markets	—	—	—	16.6	19.7
Home Experts	71.8	40.4	18.6	—	—
External sales	1,132.3	1,003.6	899.7	785.0	633.2
Profit/(loss)					
UK	81.0	66.0	61.1	63.2	58.0
North America	85.4	67.6	48.6	21.2	12.1
France	33.8	33.3	31.5	27.1	23.2
Spain	20.1	17.7	16.6	13.3	9.9
New Markets	(4.7)	(2.4)	(1.6)	(6.0)	(5.9)
Home Experts	(13.9)	(7.4)	(2.8)	—	—
	201.7	174.8	153.4	118.8	97.3
Amortisation of acquisition intangibles	(35.5)	(26.8)	(18.4)	(14.1)	(10.4)
Exceptional items	(7.6)	4.6	—	—	—
Operating profit	158.6	152.6	135.0	104.7	86.9
Net interest	(20.7)	(13.1)	(11.7)	(6.4)	(4.3)
Profit before tax	137.9	139.5	123.3	98.3	82.6

Glossary

HomeServe uses a number of alternative performance measures (APMs) to assess the performance of the Group and its individual segments. APMs used in this announcement address profitability, leverage and liquidity and together with operational KPIs give an indication of the current health and future prospects of the Group

Definitions of APMs and the rationale for their usage are included below with a reconciliation, where applicable, back to the equivalent statutory measure.

Profitability

The Group uses adjusted operating profit, adjusted EBITDA, adjusted profit before tax and adjusted earnings per share as its primary profit performance measures. These are non-IFRS measures which exclude the impact of the amortisation of acquisition intangible assets and exceptional items

Exceptional items are those items that, in the judgement of the Directors, need to be disclosed separately by virtue of their size, nature or incidence.

Acquisition intangible assets are calculated using the estimated and discounted incremental future cash flows resulting from the affinity relationship or future policy renewals as appropriate, which will include the impact of the past actions of the former owners. These past actions will include historic marketing and business development activity, including but not limited to, the staff and operational costs of the business. In addition the specific construct of the policy terms and conditions and the current and expected future profitability to be derived from the acquired business or asset is also a factor in determining the valuation of acquisition intangible assets.

The on-going service and operating costs incurred by the Group in managing the acquired businesses or assets, including but not limited to print, postage, telephony, claims costs and overheads are recognised as operating costs within these adjusted measures in the reporting period in which they are incurred

Accordingly, by excluding the amortisation of acquisition intangibles from the adjusted performance measures reported by the Group in each specific reporting period ensures that these measures only reflect the revenue attributable to, and costs incurred by, the Group in managing and operating those businesses and assets at that time in each reporting period and do not include the impact of the historic costs of the vendor or considerations of the future profits to be derived from the acquired business or assets

Reconciliations of statutory to adjusted profit measures

Total group

Emillion	2020	2019
Operating profit (statutory)	158.6	152.6
Exceptional items	7.6	(4.6)
Amortisation of acquisition intangibles	35.5	26.8
Adjusted operating profit	201.7	174.8
Operating profit (statutory)	158.6	152.6
Exceptional items	7.6	(4.6)
Depreciation of property, plant and equipment	9.3	9.1
Depreciation of right-of-use assets	14.2	—
Amortisation of acquisition intangibles	35.5	26.8
Amortisation of other intangible assets	38.3	23.1
Amortisation of contract costs	11.8	14.9
Adjusted EBITDA	275.3	221.9
Profit before tax (statutory)	137.9	139.5
Exceptional items	7.6	(4.6)
Amortisation of acquisition intangibles	35.5	26.8
Adjusted profit before tax	181.0	161.7
Pence per share		
Earnings per share (statutory)	31.7	32.7
Exceptional items (net of tax)	1.8	(1.3)
Amortisation of acquisition intangibles (net of tax)	7.8	6.1
Adjusted earnings per share	41.3	37.5

Glossary

Segmental

2020 £million	UK	North America	France	Spain	New Markets	Home Experts
Revenue	372.9	429.5	111.8	154.1	—	71.8
Statutory operating profit/(loss)	62.8	67.6	26.9	19.6	(0.9)	(17.4)
Operating margin %	17%	16%	24%	13%	—	—
Adjusting items						
Exceptional items	15.0	—	—	—	(3.8)	(3.6)
Amortisation of acquisition intangibles	3.2	17.8	6.9	0.5	—	7.1
Total adjusting items	18.2	17.8	6.9	0.5	(3.8)	3.5
Effect on operating margin (ppts)	5%	4%	6%	—	—	—
Adjusted operating profit/(loss)	81.0	85.4	33.8	20.1	(4.7)	(13.9)
Adjusted operating margin %	22%	20%	30%	13%	—	—

2019 £million	UK	North America	France	Spain	New Markets	Home Experts
Revenue	391.7	333.4	104.6	140.8	—	40.4
Statutory operating profit/(loss)	68.4	54.7	26.8	17.5	(2.4)	(12.4)
Operating margin %	17%	16%	26%	12%	—	—
Adjusting items						
Exceptional items	(4.6)	—	—	—	—	—
Amortisation of acquisition intangibles	2.2	12.9	6.5	0.2	—	5.0
Total adjusting items	(2.4)	12.9	6.5	0.2	—	5.0
Effect on operating margin (ppts)	—	4%	6%	1%	—	—
Adjusted operating profit/(loss)	66.0	67.6	33.3	17.7	(2.4)	(7.4)
Adjusted operating margin %	17%	20%	32%	13%	—	—

2020	UK	North	France	Spain	New Markets	Home Experts
Local currency million	£	America	€	€	£	£
Revenue	372.9	546.1	128.4	176.6	—	71.8
Statutory operating profit/(loss)	62.8	86.1	31.2	22.5	(0.9)	(17.4)
Operating margin %	17%	16%	24%	13%	—	—
Adjusting items						
Exceptional items	15.0	—	—	—	(3.8)	(3.6)
Amortisation of acquisition intangibles	3.2	22.5	7.8	0.6	—	7.1
Total adjusting items	18.2	22.5	7.8	0.6	(3.8)	3.5
Effect on operating margin (ppts)	5%	4%	6%	—	—	—
Adjusted operating profit/(loss)	81.0	108.6	39.0	23.1	(4.7)	(13.9)
Adjusted operating margin %	22%	20%	30%	13%	—	—
2019	UK	North	France	Spain	New Markets	Home Experts
Local currency million	£	America	€	€	£	£
Revenue	391.7	436.2	118.7	159.7	—	40.4
Statutory operating profit/(loss)	68.4	71.3	30.4	19.6	(2.4)	(12.4)
Operating margin %	17%	16%	26%	12%	—	—
Adjusting items						
Exceptional items	(4.6)	—	—	—	—	—
Amortisation of acquisition intangibles	2.2	16.8	7.4	0.2	—	5.0
Total adjusting items	(2.4)	16.8	7.4	0.2	—	5.0
Effect on operating margin (ppts)	—	4%	6%	—	—	—
Adjusted operating profit/(loss)	66.0	88.1	37.8	19.8	(2.4)	(7.4)
Adjusted operating margin %	17%	20%	32%	12%	—	—

Glossary

Leverage

The Group targets net debt in the range of 1.0 to 2.0x adjusted EBITDA measured at the year end. The range reflects HomeServe's relatively low risk appetite. Due to the seasonality of the business and depending on M&A opportunities, HomeServe is able to operate outside 1.0 to 2.0x for periods of time but with a highly cash generative business model HomeServe will seek to return to its target range. The leverage ratio is also important as it factors into the Group's banking covenants and the rolling 12 month rate at each half year period influences the future interest rates payable on the Group's Revolving Credit Facility.

Certain of the Group's segmental bonus measures relate to net cash. Net cash is defined and calculated in the same way as net debt but returns a positive closing balance.

Note 25 provides a full reconciliation of the movements in liabilities arising from borrowings and lease liabilities.

The closing balances at 31 March were as follows:

	2020 £m	2019 £m
Current liabilities from borrowing and lease liabilities		
Lease liabilities	14.1	0.5
Banks and other loans	40.3	39.7
	54.4	40.2
Non-current liabilities from borrowings and lease liabilities		
Lease liabilities	45.2	0.7
Bank and other loans	540.6	336.4
	585.8	337.1
Total liabilities from borrowings and lease liabilities	640.2	377.3
Cash and cash equivalents	(131.2)	(72.6)
Net debt	509.0	304.7
Adjusted EBITDA	275.3	221.9
Leverage	1.8x	1.4x

Liquidity

Cash conversion % is defined as cash generated by operations divided by adjusted operating profit. The measure demonstrates the cash generative nature of the ordinary trading operations of HomeServe's business model and the ability to produce positive cash flows that can be invested for future growth initiatives or in capital projects to maintain customer service initiatives, digital enhancements or efficiencies that benefit the long-term health of the business.

Free cash flow is stated after tax and interest obligations and is an indication of the strength of the business to generate funds to meet its liabilities and repay borrowings. It also shows the funds that are used for capital investment including funds that might be made available to pursue M&A activities and to pay dividends.

	2020 £m	2019 £m
Adjusted operating profit	201.7	174.8
Exceptional items	(7.6)	4.6
Amortisation of acquisition intangibles	(35.5)	(26.8)
Operating profit	158.6	152.6
Impact of exceptional items	7.6	(4.6)
Depreciation and amortisation	109.1	73.9
Non-cash items	9.2	10.7
Increase in working capital	(44.1)	(30.4)
Cash generated by operations	240.4	202.2
Net interest and borrowing costs	(18.5)	(9.9)
Repayment of lease principal	(12.4)	(0.6)
Taxation	(30.2)	(31.7)
Capital expenditure - ordinary	(79.0)	(66.9)
Capital expenditure - acquisitions of policy books	(6.9)	(48.8)
Free cash flow	93.4	44.3

£million	2020	2019
Adjusted operating profit	201.7	174.8
Cash generated by operations	240.4	202.2
Cash conversion	119%	116%

IFRS 16 – Leases

HomeServe has adopted IFRS 16 using the modified retrospective approach with a date of initial application of 1 April 2019. Comparative information provided in this announcement has not been restated. The effect of IFRS 16 on the income statement is to remove operating lease charges previously shown within 'operating costs', replacing them with depreciation and interest charges that now result from the capitalisation of "Right of Use Assets" and the recording of "Lease Liabilities" in the consolidated balance sheet (see Note 2 Accounting Policies).

IFRS 16 – Impact on reported profits

There is no material impact on FY20 PBTA as a result of adopting IFRS 16. The effect on adjusted operating profit at a Group level is £0.2m with the segmental breakdown shown in the table below:

Glossary

2020 £million	UK	North America	France	Spain	New Markets	Home Experts	Total
Adjusted operating profit (IAS 17)	81.0	85.5	33.8	20.0	(4.7)	(13.7)	201.9
Operating lease charge (IAS 17)	5.9	3.2	1.6	2.0	—	0.8	13.5
Depreciation on right of use assets (IFRS 16)	(5.9)	(3.3)	(1.6)	(1.9)	—	(1.0)	(13.7)
Adjusted operating profit (IFRS 16)	81.0	85.4	33.8	20.1	(4.7)	(13.9)	201.7
Interest charge on lease liabilities outstanding (IFRS 16)	(0.5)	(0.6)	(0.1)	(0.1)	—	(0.2)	(1.5)
Adjusted operating profit post IFRS 16 interest charges	80.5	84.8	33.7	20.0	(4.7)	(14.1)	200.2

IFRS 16 – Impact on net debt and leverage

The additional depreciation and interest charges incurred due to the adoption of IFRS 16 have resulted in an increase to FY20 adjusted EBITDA of £13.5m. Total lease liabilities outstanding at 31 March have increased net debt by £59.3m.

The overall effect on leverage is an increase of 0.1x.

	2020 £m
Adjusted EBITDA (IAS 17)	261.8
Operating lease rentals (IAS 17)	13.5
Adjusted EBITDA (IFRS 16)	275.3

	2020 £m
Net debt (IAS 17)	449.7
IFRS 16 lease liabilities	59.3
Net debt (post IFRS 16)	509.0

KPIs

The Group uses a number of operational key performance indicators that provide insight into past performance and are an indicator of the future prospects of the Group as a whole and its individual segments.

Affinity partner households tracks the growth in addressable market delivered through existing and new partnerships with utilities and municipalities.

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

Retention rate reflects ability to deliver fit-for-purpose product and great service to customers.

Policies illustrates ability to grow the product line through customer focus and innovation.

Income per customer measures ability to design and market increasingly valuable products, and sell them efficiently. Due to currency differences, this measure is tracked at a geographic level. Income per customer is calculated as the last 12 months' net policy income divided by customers.

Trades are customers in the Home Experts business. Growing the network of vetted and reviewed trades will enable HomeServe to meet consumer needs and grow its business.

Adjusted profit before tax is the key profit measure by which business growth, efficiency and sustainability are monitored.

Net debt to EBITDA is the key cash ratio, which is used to monitor usage of financial resources within agreed risk parameters.

Customers

IFRS15 defines a customer as 'a party that has contracted with an entity to obtain goods or services'. In the Membership businesses where the Group acts as an intermediary selling contracts and insurance policies to end consumers, the 'IFRS 15 customer' is considered to be the underwriter with which the Group has contracted to sell policies.

This is different, however, from how the Group markets and communicates the value of its products and services to end consumers. Here, the businesses strategy and communications (both internally and externally) refer to the end consumer as the customer. As a result, for the purposes of describing the strategy and operational performance of the business, the Business review and the Group's KPIs refer to the end consumer as the customer of the Group, rather than the underwriter. However, for the purposes of preparing the financial statements, the accounting transactions are recorded in accordance with IFRS 15 where the customer is the underwriter.

For all other sources of revenue, it is the party that has contracted with the Group to obtain goods and services that is classified as the customer. The following table summarises this position.

Revenue Stream	IFRS 15 'contracted' customer	Customer as referred to in the Strategic Report
Policy Income – insurance intermediary commissions	Underwriters	End user of the service
Policy Income – repairs	Underwriters or other B2B contracted parties	
Policy Income – home assistance	End user of the service	
Home Experts		
HVAC		
Other		

Shareholder information

Financial calendar

2020

17 July	Annual General Meeting
3 August	Final dividend for the year ended 31 March 2020
17 November	Interim results for the six months ending 30 September 2020

2021

January	Interim dividend for the year ending 31 March 2021
May	Preliminary results for the year ending 31 March 2021
June	2021 Annual Report and Accounts available

Shareholder helpline

HomeServe's shareholder register is maintained by Computershare Investor Services PLC who are responsible for making dividend payments and updating the register, including details of changes to shareholders' addresses. If you have a query about your shareholding in HomeServe, you should contact Computershare.

Tel: 0370 707 1053

Address: PO Box 82, The Pavilions, Bridgwater Road, Bristol, BS99 7NH

Website: www-uk.computershare.com/investor

Website

The HomeServe website at www.homeserveplc.com provides news and details of the Company's activities plus information for shareholders. The investor section of the website contains real time and historical share price data as well as the latest results and announcements.

HomeServe plc

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