

Group income statement

year ended 31 March 2009

Continuing operations	Notes	2009		£000 Total	2008		£000 Total
		£000 Core ²	£000 Non-core ²		£000 Core ²	£000 Non-core ²	
Revenue	4	283,840	233,601	517,441	263,215	291,660	554,875
Operating costs:							
Amortisation of acquisition intangibles	16	(3,664)	(8,441)	(12,105)	(2,251)	(8,069)	(10,320)
Exceptional operating costs ¹	6	(2,317)	(4,232)	(6,549)	(2,154)	—	(2,154)
Impairment of UK Emergency Services assets	7	—	(97,184)	(97,184)	—	—	—
Other operating costs		(196,951)	(225,595)	(422,546)	(190,151)	(276,516)	(466,667)
Operating costs	8	(202,932)	(335,452)	(538,384)	(194,556)	(284,585)	(479,141)
Share of results of joint ventures	19	3,451	—	3,451	1,755	—	1,755
Operating profit/(loss)		84,359	(101,851)	(17,492)	70,414	7,075	77,489
Investment income	10	1,237	116	1,353	929	173	1,102
Finance costs	11	(4,808)	(763)	(5,571)	(6,179)	(574)	(6,753)
Profit before tax, amortisation of acquisition intangibles, exceptional operating costs, impairment and tax on joint ventures		88,710	7,359	96,069	70,560	14,743	85,303
Amortisation of acquisition intangibles	16	(3,664)	(8,441)	(12,105)	(2,251)	(8,069)	(10,320)
Exceptional operating costs ¹	6	(2,317)	(4,232)	(6,549)	(2,154)	—	(2,154)
Impairment	7	—	(97,184)	(97,184)	—	—	—
Tax on joint ventures		(1,941)	—	(1,941)	(991)	—	(991)
Profit/(loss) before tax		80,788	(102,498)	(21,710)	65,164	6,674	71,838
Tax	12	(24,352)	10,756	(13,596)	(17,945)	(4,617)	(22,562)
Profit/(loss) for the year, being attributable to equity holders of the parent		56,436	(91,742)	(35,306)	47,219	2,057	49,276
Dividends per share, paid and proposed	13			35.50p			31.25p
(Loss)/earnings per share							
Basic	14			(56.2p)			79.0p
Diluted	14			(56.2p)			76.0p

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

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

Group statement of recognised income and expense

year ended 31 March 2009

	Notes	2009 £000	2008 £000
Exchange differences on translation of foreign operations	33	4,173	46
Actuarial (losses)/gains on defined benefit pension scheme	39	(2,049)	714
Loss on cash flow hedge	33	(1,947)	—
Tax on items taken directly to equity	24	(4,240)	427
Net (expense)/income recognised directly in equity		(4,063)	1,187
(Loss)/profit for the year		(35,306)	49,276
Total recognised income and expense for the year attributable to equity holders of the parent		(39,369)	50,463

Group balance sheet

31 March 2009

	Notes	2009 £000	Restated (note 15) 2008 £000
Non-current assets			
Goodwill	15	175,667	218,070
Other intangible assets	16	43,814	62,365
Property, plant and equipment	17	34,518	42,804
Interests in joint ventures	19	5,224	3,502
Deferred tax assets	24	4,189	—
		263,412	326,741
Current assets			
Inventories	20	9,495	7,913
Trade and other receivables	21	206,132	193,915
Cash and cash equivalents	21	21,345	47,198
		236,972	249,026
Total assets		500,384	575,767
Current liabilities			
Trade and other payables	25	(206,033)	(201,235)
Current tax liabilities		(11,790)	(10,633)
Derivative financial instruments	22	(1,947)	—
Bank overdrafts and loans	23	(55,300)	(90,304)
		(275,070)	(302,172)
Net current liabilities		(38,098)	(53,146)
Non-current liabilities			
Other financial liabilities	26	(10,411)	(7,488)
Retirement benefit obligation	39	(1,919)	—
Deferred tax liabilities	24	—	(694)
		(12,330)	(8,182)
Total liabilities		(287,400)	(310,354)
Net assets		212,984	265,413
Equity			
Share capital	27	8,167	8,147
Share premium account	28	33,486	32,507
Merger reserve	29	70,992	70,992
Own shares reserve	30	(27,523)	(29,586)
Share incentive reserve	31	8,381	6,550
Capital redemption reserve	32	1,200	1,200
Hedging and currency translation reserve	33	2,336	110
Retained earnings	34	115,945	175,493
Total equity		212,984	265,413

The financial statements were approved by the Board of Directors and authorised for issue on 19 May 2009. They were signed on its behalf by:

Jonathan Simpson-Dent
Chief Financial Officer
19 May 2009

Group cash flow statement

year ended 31 March 2009

	Notes	2009 £000	2008 £000
Net cash from continuing operating activities	36	65,482	66,973
Investing activities			
Interest received		1,353	1,102
Proceeds on disposal of property, plant and equipment		1,104	2,585
Purchases of intangible assets	16	(13,210)	(10,104)
Purchases of property, plant and equipment	17	(4,065)	(10,063)
Net cash outflow on acquisitions	35	(23,380)	(46,096)
Acquisition of investment in joint venture	19	(731)	—
Net cash used in investing activities		(38,929)	(62,576)
Financing activities			
Dividends paid	13	(20,415)	(16,893)
Purchase of own shares	30	—	(7,331)
Issue of shares from the employee benefit trust		2,010	2,523
Proceeds on issue of share capital	27	999	1,156
(Decrease)/increase in bank overdrafts and revolving credit facilities	23	(35,000)	48,461
Net cash (used in)/from financing activities		(52,406)	27,916
Net (decrease)/increase in cash and cash equivalents		(25,853)	32,313
Cash and cash equivalents at beginning of year		47,198	14,885
Cash and cash equivalents at end of year		21,345	47,198

Notes to the financial statements

year ended 31 March 2009

1. General information

HomeServe plc is a Company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 40.

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

2. Significant accounting policies

Basis of accounting

The financial statements have been prepared in accordance with IFRSs, adopted by the European Union and therefore comply with Article 4 of the EU IAS Regulation. 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:

Amendments to IFRS7 (Mar 2009)	Improving Disclosures about Financial Instruments
IFRS3 (revised Jan 2008)	Business Combinations
Amendment to IAS23 (Mar 2007)	Borrowing Costs
Amendments to IAS1 (Sept 2007)	Presentation of Financial Statements
Amendments to IAS27 (Jan 2008)	Consolidated and Separate Financial Statements
Amendment to IFRS2 (Jan 2008)	Vesting Conditions and Cancellations
Amendments to IAS32 and IAS1 (Feb 2008)	Puttable Financial Instruments and Obligations Arising on Liquidation
Amendments to IFRS1 and IAS27 (May 2008)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
Improvements to IFRSs 2008 (May 2008)	Improvements to IFRSs 2008
Amendment to IAS39 (July 2008)	Eligible Hedged Items
Amendments to IAS39 and IFRS7 (Oct 2008)	Reclassification of Financial Assets
Amendments to IAS39 and IFRS7 (Nov 2008)	Reclassification of Financial Assets – Effective Date and Transition
Amendments to IFRIC9 and IAS39 (Mar 2009)	Embedded Derivatives
IFRIC12 Service Concession Arrangements	
IFRIC13 Customer Loyalty Programmes	
IFRIC15 Agreements for the Construction of Real Estate	
IFRIC16 Hedges of a Net Investment in a Foreign Operation	
IFRIC17 Distributions of Non-cash Assets to Owners	
IFRIC18 Transfers of Assets from Customers	

The Directors do not expect that the adoption of these Standards and Interpretations in future periods will have a material impact on the financial statements of the Group except for IFRS3 (Revised), whereby acquisition costs and adjustments to contingent consideration will be charged/credited to the income statement. IFRS3 (Revised) is expected to apply to the Group for the year ending 31 March 2011.

The financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments, and on a going concern basis as set out in the Corporate governance statement. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company made up to 31 March each year. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill.

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.

Investments in joint ventures

The Group's share of results of joint ventures is included in the consolidated income statement using the equity method of accounting. The Group's share of their net assets is included in the consolidated balance sheet, including associated goodwill. Based on the guidance of IAS28 'Investments in Associates', provision for the Group's share of the joint venture losses are not recognised if the recognition of such losses reduces the Group's share of the joint venture's net assets below zero.

Goodwill

Goodwill arising on consolidation represents the excess of the cost of acquisition over the Group's interest in the fair value of the identifiable assets and liabilities of a subsidiary or joint venture at the date of acquisition.

Goodwill is recognised as an asset and reviewed for impairment annually or more frequently if there is an indication that it may be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

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

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

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

Revenue recognition

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

Membership businesses

Revenue in respect of the UK and overseas Membership businesses include amounts receivable from the sale of policies, stated net of commissions payable and Insurance Premium Tax.

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

Revenue is recognised on the sale of a policy except where an obligation exists to provide future services, typically claims handling and policy administration services. In these situations, a proportion of revenue, sufficient to cover future claims handling costs and margin, is deferred over the life of the policy, as deferred income. The assessment of future claims handling takes account of the expected numbers of claims and the estimated cost of handling those claims, which are validated through experience of historic actual costs. The deferred revenue is released over the expected profile of expected claims over the policy period. The deferral also includes a profit element to recognise the performance of these services in the future.

Notes to the financial statements

year ended 31 March 2009

2. Significant accounting policies (continued)

Revenue recognition (continued)

Where a contractual arrangement consists of two or more separate arrangements that can be provided to customers either on a stand-alone basis or as an optional extra, revenue is recognised for each element as if it were an individual contract.

Revenue from contracts of reinsurance is recognised on a straight-line basis over the life of the policies. All associated costs are charged to the income statement as incurred. If claims costs under reinsurance contracts are expected to exceed revenue, the shortfall would be charged to the income statement immediately.

Emergency Services businesses

Revenue represents amounts receivable, excluding VAT, from the sale of goods and services and is recognised on completion of the obligations relating to the work.

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

Leasing

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

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

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

Foreign currencies

Transactions in currencies other than pounds sterling are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items that are measured at historical cost in a foreign currency are not retranslated.

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

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

Borrowing costs

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

Operating profit

Operating profit is stated after charging all operating costs and after the share of results of joint ventures but before investment income and finance costs.

Retirement benefit costs

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

For defined benefit retirement schemes, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside the income statement and presented in the statement of recognised income and expense.

Past service cost is recognised immediately to the extent that the benefits are already vested, and otherwise is amortised on a straight-line basis over the average period until the benefits become vested.

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

Taxation

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

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

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

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and interests in joint ventures, 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 directly to equity, in which case the deferred tax is also dealt with in equity.

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

Property, plant and equipment

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

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

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

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

Notes to the financial statements

year ended 31 March 2009

2. Significant accounting policies (continued)

Intangible assets

Intangible assets that are acquired on acquisition of a subsidiary undertaking or business are stated at their fair value and are amortised over their useful lives, using the straight-line method, as follows:

Customer relationships	3–7 years
Customer databases/ exclusive marketing agreements	3–7 years
Franchise assets	3–15 years

Computer software and the related licences are stated at cost and amortised over their useful lives of three to seven years.

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is measured on a first-in, first-out (FIFO) basis. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made for obsolete, slow moving or defective items where appropriate.

Financial instruments

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

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

Cash and cash equivalents

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

Financial liabilities and equity

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

Borrowings

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

Hedge accounting

The Group designates certain hedging instruments, which include derivatives, as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss and is included within finance costs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in the income statement.

Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

Trade payables

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

Equity instruments

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

Share-based payments

The Group has applied the requirements of IFRS2 Share-Based Payments. In accordance with the transitional provision, IFRS2 has been applied to all grants of equity instruments after 7 November 2002 that were unvested as of 1 April 2005.

The Group issues equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. The Group also provides employees with the ability to purchase the Group's ordinary shares at a discount to the current market value through Save As You Earn schemes.

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

Own shares reserve

Shares of the parent Company that are purchased by the HomeServe plc Employee Benefit Trust are held at cost and shown as a deduction in equity. Cost comprises consideration paid, including directly attributable costs. The shares are held to satisfy obligations under the share option schemes.

Notes to the financial statements

year ended 31 March 2009

3. Judgements and estimation uncertainty

Revenue recognition

Within the Policy Membership businesses, an appropriate proportion of revenue is deferred to future periods when the Group has obligations extending to future periods. As a result, judgement is required in assessing the extent and associated costs of fulfilling those future obligations. The Group uses historical experience and forecast activity levels in determining the appropriate amount of revenue to recognise in the current period and how much to defer to future periods.

Impairment of goodwill and acquisition intangible assets

The annual impairment assessment in respect of goodwill and acquisition intangibles requires estimates of the value in use (or fair value less costs to sell) of cash-generating units to which goodwill and acquisition intangibles have been allocated. As a result, estimates of future cash flows are required, together with an appropriate discount factor for the purpose of determining the present value of those cash flows. The carrying value of goodwill is £175.7m (2008 restated: £218.1m). The carrying value of acquisition intangibles is £28.6m (2008: £47.6m). Following the annual impairment review, an impairment charge of £59.2m has been recorded against goodwill and £17.0m against acquisition intangibles. As set out in note 7 and 15, reasonably possible changes in respect of commercial outcomes around sales volumes, prices and margins can impact the recoverable value.

Pensions

The Group participates in a defined benefit retirement scheme for certain employees. The scheme assets and liabilities are valued by an independent qualified actuary using the assumptions summarised in note 39. As required by IAS19, the value of the defined benefit obligation has been measured using the projected unit credit method which requires the use of judgement and estimation.

4. Revenue

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

	2009 £000	2008 £000
Provision of services	517,441	554,875
Investment income (note 10)	1,353	1,102
	518,794	555,977

5. Business and geographical segments

Segment revenues and results

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

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

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

2009	UK Membership £000	Continental Europe £000	United States of America £000	Core £000	Non-core £000	Consolidated £000
Revenue						
Total revenue	228,183	63,404	15,904	307,491	233,601	541,092
Eliminations	(497)	—	—	(497)	—	(497)
Joint venture revenues, not recognisable for statutory reporting	—	(23,154)	—	(23,154)	—	(23,154)
External sales	227,686	40,250	15,904	283,840	233,601	517,441

Inter-segment sales are charged at prevailing market prices.

Result

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

2008	UK Membership £000	Continental Europe £000	United States of America £000	Core £000	Non-core £000	Consolidated £000
Revenue						
Total revenue	236,452	31,654	8,097	276,203	291,660	567,863
Eliminations	(295)	—	—	(295)	—	(295)
Joint venture revenues, not recognisable for statutory reporting	—	(12,693)	—	(12,693)	—	(12,693)
External sales	236,157	18,961	8,097	263,215	291,660	554,875

Inter-segment sales are charged at prevailing market prices.

Result

Segment operating profit/(loss)						
pre-amortisation of acquisition intangibles, exceptional operating costs and tax on joint ventures	76,302	1,756	(2,248)	75,810	15,144	90,954
Amortisation of acquisition intangibles	(714)	(709)	(828)	(2,251)	(8,069)	(10,320)
Tax on joint ventures	—	(991)	—	(991)	—	(991)
Exceptional operating costs	(2,154)	—	—	(2,154)	—	(2,154)
Operating profit/(loss)	73,434	56	(3,076)	70,414	7,075	77,489
Investment income				929	173	1,102
Finance costs				(6,179)	(574)	(6,753)
Profit before tax				65,164	6,674	71,838
Tax				(17,945)	(4,617)	(22,562)
Profit after tax				47,219	2,057	49,276

Notes to the financial statements

year ended 31 March 2009

5. Business and geographical segments (continued)

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 2, except that revenues attributable to the Group's share of its French joint venture are included in revenues within 'Continental Europe' for segmental reporting, but are not recognised for statutory reporting.

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

Segment assets

	2009 £000	Restated 2008 £000
UK Membership	344,106	393,275
UK Emergency Services	80,669	119,824
Continental Europe	46,996	42,494
United States of America	28,613	20,174
	500,384	575,767

Segment liabilities

	2009 £000	Restated 2008 £000
UK Membership	183,034	162,889
UK Emergency Services	68,567	76,737
Continental Europe	15,888	42,891
United States of America	19,911	27,837
	287,400	310,354

All assets and liabilities are allocated to reportable segments.

Other segment information

	Capital additions		Depreciation, amortisation and impairment	
	2009 £000	2008 £000	2009 £000	Restated 2008 £000
UK Membership	10,655	9,944	5,440	4,749
UK Emergency Services	6,002	10,072	111,352	12,415
Continental Europe	522	6	2,881	976
United States of America	96	145	539	973
	17,275	20,167	120,212	19,113

Revenues from major products and services

	2009 £000	Restated 2008 £000
Sale of home assistance and emergency policies	216,271	210,403
Provision of repair services	301,667	344,767
Eliminations	(497)	(295)
Consolidated revenue (excluding investment revenue)	517,441	554,875

Geographical information

The Group operates in four principal geographical areas – United Kingdom, France, Spain and the United States of America.

The Group's revenue from external customers and information about its segment assets (non-current assets excluding investments in joint ventures, deferred tax assets and other financial assets) by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2009 £000	2008 £000	2009 £000	2008 £000
United Kingdom	461,287	527,817	213,777	296,714
Continental Europe	40,250	18,961	28,245	16,956
United States of America	15,904	8,097	11,977	9,569
	517,441	554,875	253,999	323,239

Information about major customers

There are no customers in either year from which the Group earns more than 10% of its revenues.

6. Exceptional operating costs

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

7. Impairment of UK Emergency Services assets

The impairment charge of £97,184,000 consists of:

	2009 £000	2008 £000
Impairment charge:		
Goodwill (note 15)	59,179	—
Acquisition intangible assets (note 16)	16,965	—
Software assets (note 16)	8,739	—
Property, plant and equipment (note 17)	5,149	—
Other net assets – trade receivables (note 21)	7,152	—
	97,184	—

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

As part of our annual impairment review (note 15), we have reviewed the carrying value of goodwill and other assets within the UK Emergency Services division to assess the recoverable value of each cash-generating unit within this division. Given the Board's decision to seek a disposal of the businesses within this division, our assessment of value in use is closely aligned with the estimated fair value less costs to sell these businesses. As value is expected to be realised principally through a disposal process, fair value less costs to sell has been based on a price-earnings methodology. This has been compared to external sources of information such as indicative preliminary valuations of the businesses, taking account of usual commercial negotiations to obtain an agreed sales consideration for the businesses. The resulting estimated fair value has not been discounted due to the current expectation of a disposal within the next 12 months.

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

Notes to the financial statements

year ended 31 March 2009

7. Impairment of UK Emergency Services assets (continued)

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

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

8. (Loss)/profit for the year

(Loss)/profit for the year from continuing operations has been arrived at after charging:

	2009 £000	2008 £000
Included in operating costs:		
Depreciation of property, plant and equipment	6,706	6,391
Cost of inventories recognised as expense	28,802	29,037
Amortisation of software licences	4,217	2,402
Staff costs (note 9)	156,606	150,556
Auditors' remuneration for audit services	276	280
Amortisation of customer relationship intangibles	8,850	7,558
Amortisation of customer database intangibles	1,854	1,261
Amortisation of franchise asset intangibles	1,401	1,501
Impairment of UK Emergency Services assets (note 7)	97,184	—
Other impairment loss recognised on trade receivables	2,102	1,112
Write down of inventories	286	73

The analysis of auditors' remuneration is as follows:

	2009 £000	2008 £000
Fees payable to the Company's auditors for the audit of the Company's annual financial statements	50	45
Fees payable to the Company's auditors and their associates for other services to the Group		
The audit of the Company's subsidiaries pursuant to legislation	226	235
Total audit fees	276	280
Other services pursuant to legislation	37	37
Other services – accounting advice	—	31
Corporate finance services	—	315
Tax services	188	156
Total non-audit fees	225	539

Fees payable to Deloitte LLP and their associates for non-audit services to the Company are not required to be disclosed because the consolidated financial statements are required to disclose such fees on a consolidated basis.

A description of the work of the Audit Committee is set out in the Corporate governance report and includes an explanation of how auditor objectivity and independence is safeguarded when non-audit services are provided by the auditors.

Corporate finance services relate to the provision of various services connected to the Group's aborted acquisition of Domestic & General Group plc including due diligence and working capital reports.

Tax services during the year include the provision of advice in respect of a number of compliance matters, including those relating to the Group's expatriate management personnel and UK corporation tax returns.

9. Staff costs

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

	2009 number	Restated 2008 number
UK Membership	2,454	2,425
UK Emergency Services	2,585	2,609
Continental Europe (excluding joint ventures)	239	141
United States of America	234	119
	5,512	5,294

Due to the realignment of business segments (note 5) the 2008 comparatives have been amended.

	2009 £000	2008 £000
Their aggregate remuneration comprised:		
Wages and salaries	141,064	132,966
Social security costs	12,273	14,264
Other pension costs (note 39)	3,269	3,326
	156,606	150,556

10. Investment income

	2009 £000	2008 £000
Interest on bank deposits	1,353	1,102

11. Finance costs

	2009 £000	2008 £000
Interest on bank overdrafts and revolving credit facilities	5,116	6,241
Unwinding of discount on deferred and contingent consideration	445	484
Loan note interest	10	28
	5,571	6,753

There were no amounts in the year (2008: £nil) removed from equity and included in the income statement for the year in respect of cash flow hedges.

Notes to the financial statements

year ended 31 March 2009

12. Tax

	2009 £000	2008 £000
Current tax		
– Current year	23,856	24,311
– Prior year	(857)	(427)
Total current tax	22,999	23,884
Deferred tax (note 24)		
– Current year	(9,711)	(1,378)
– Prior year	308	56
Total deferred tax	(9,403)	(1,322)
Total tax charge	13,596	22,562

UK corporation tax is calculated at 28% (2008: 30%) of the estimated assessable (loss)/profit for the year.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The charge for the year can be reconciled to the (loss)/profit per the income statement as follows:

	2009 £000	2008 £000
Profit before tax and impairment	75,474	71,838
Impairment	(97,184)	—
(Loss)/profit before tax	(21,710)	71,838
Tax at the UK corporation tax rate of 28% (2008: 30%) pre-impairment	21,133	21,551
Tax effect of expenses that are not deductible in determining taxable profit	2,077	1,108
Adjustments in respect of prior years – current tax	(856)	(438)
Adjustments in respect of prior years – deferred tax	308	56
Taxable unremitted overseas profits	622	—
Effect of overseas losses excluding joint ventures	281	1,422
Adjustments in respect of the change in tax rate	—	(610)
Tax effect of share of results of joint venture	(966)	(527)
Tax expense for the year before the impact of impairment	22,599	22,562
Tax effect of impairment at UK corporation tax rate of 28%	(27,212)	—
Goodwill impairment not deductible	16,570	—
Other non-allowable items	1,639	—
Tax credit for the year on impairment	(9,003)	—
Tax expense for the year after the impact of impairment	13,596	22,562

13. Dividends

	2009 £000	2008 £000
Amounts recognised as distributions to equity holders in the year:		
Final dividend for the year ended 31 March 2008 of 21.85p (2007: 17.5p) per share	13,772	11,010
Interim dividend for the year ended 31 March 2009 of 10.50p (2008: 9.4p) per share	6,643	5,883
	20,415	16,893

The proposed final dividend for the year ended 31 March 2009 is 25.00p per share amounting to £15,795,000 (2008: 21.85p per share amounting to £13,772,000).

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.

14. (Loss)/earnings per share

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

	Core 2009 £000	Total 2009 £000	Core 2008 £000	Total 2008 £000
Profit/(loss) for the year	56,436	(35,306)	47,219	49,276
Amortisation of acquisition intangibles	3,664	12,105	2,251	10,320
Exceptional operating costs (note 6)	2,317	6,549	2,154	2,154
Impairment of UK Emergency Services assets (note 7)	—	97,184	—	—
Tax impact arising on amortisation of acquisition intangibles, impairment and exceptional operating costs	(1,477)	(13,611)	(1,309)	(3,706)
Adjusted profit for the year	60,940	66,921	50,315	58,044
Weighted average number of shares ('000)				
Basic		62,878		62,412
Dilutive impact of share options		2,003		2,456
Diluted		64,881		64,868

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

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

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

Notes to the financial statements

year ended 31 March 2009

15. Goodwill

	£000
Cost	
At 1 April 2007	189,039
Recognised on acquisitions	32,119
Reduction in consideration	(3,088)
At 1 April 2008 (restated)	218,070
Recognised on acquisitions (note 35)	16,776
At 31 March 2009	234,846
Accumulated impairment losses	
At 1 April 2007, 1 April 2008	—
Impairment (note 7)	59,179
At 31 March 2009	59,179
Carrying amount	
At 31 March 2009	175,667
At 31 March 2008 (restated)	218,070

During the year, the contingent consideration payable on the 2008 acquisition of Anglia (NW) Limited was reduced by £3,088,000. Goodwill on the acquisition has been reduced accordingly, with the goodwill and contingent consideration being restated in the comparative period.

Goodwill acquired in a business combination is allocated at acquisition to the cash-generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2009 £000	Restated 2008 £000
Minority interest buy-out	66,940	66,940
Other Policy Businesses (comprising several CGUs)	70,191	59,334
UK Membership	137,131	126,274
Glass & Locks	22,296	38,983
Improveline	—	6,458
Property Repairs	—	9,533
Chem-Dry	—	7,141
Contents Services	—	2,246
Anglia	—	14,134
Other Emergency Services Businesses (comprising several CGUs)	—	2,667
UK Emergency Services	22,296	81,162
Reparalia	10,634	10,634
SPT	5,606	—
Continental Europe	16,240	10,634
United States of America	—	—
	175,667	218,070

During the year, following the transfer of claims management and policy repair networks from UK Emergency Services to UK Membership, £4,846,000 goodwill has been transferred to UK Membership in the prior year analysis.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

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

The Group prepares annual cash flow forecasts derived from the most recent financial budgets approved by the Directors and extrapolates cash flows based on an estimated growth rate of 2.5% (2008: 2.5%) representing long-term growth rates based in respective country GDP rates. The pre-tax rate used to discount the forecast cash flows for all CGUs is 11.3% (2008: 11.3%).

The Group has conducted a sensitivity analysis on the impairment test of each CGU's carrying value. Details in respect of the impairment of the non-core UK Emergency Services division, including assessment of the most likely reasonably possible changes which could impact upon the carrying value, are set out in note 7. In respect of the Group's other businesses, the key assumptions are as noted above. Management believes that there are no reasonably possible changes to the key assumptions in the next year which would result in the carrying amount of goodwill exceeding the recoverable amount. This view is based upon inherently judgemental assumptions, however, takes account of the headroom in management's internal growth targets versus the conservative growth estimates used in the impairment review.

16. Other intangible assets

	Acquisition intangibles			Total acquisition intangibles £000	Software £000	Total intangibles £000
	Customer relationships £000	Customer databases £000	Franchise assets £000			
Cost						
At 1 April 2007	26,362	8,840	10,344	45,546	13,387	58,933
Additions	—	—	—	—	10,104	10,104
Disposals	—	—	—	—	(1,205)	(1,205)
Acquisitions	16,976	4,983	814	22,773	461	23,234
At 1 April 2008	43,338	13,823	11,158	68,319	22,747	91,066
Additions	—	—	—	—	13,210	13,210
Disposals	—	—	—	—	(250)	(250)
Acquisitions	2,742	4,026	—	6,768	8	6,776
Exchange differences	109	3,256	—	3,365	393	3,758
At 31 March 2009	46,189	21,105	11,158	78,452	36,108	114,560
Accumulated amortisation and impairment						
At 1 April 2007	6,629	1,440	2,350	10,419	6,442	16,861
Charge for the year	7,558	1,261	1,501	10,320	2,402	12,722
Disposals	—	—	—	—	(882)	(882)
At 1 April 2008	14,187	2,701	3,851	20,739	7,962	28,701
Charge for the year	8,850	1,854	1,401	12,105	4,217	16,322
Impairment (note 7)	11,059	—	5,906	16,965	8,739	25,704
Disposals	—	—	—	—	(250)	(250)
Exchange differences	—	—	—	—	269	269
At 31 March 2009	34,096	4,555	11,158	49,809	20,937	70,746
Carrying amount						
At 31 March 2009	12,093	16,550	—	28,643	15,171	43,814
At 31 March 2008	29,151	11,122	7,307	47,580	14,785	62,365

Notes to the financial statements

year ended 31 March 2009

16. Other intangible assets (continued)

Acquisition intangibles represent non-monetary assets separately identifiable from goodwill and include customer relationships, customer databases/exclusive marketing agreements and franchise assets relating to purchased franchise licences.

17. Property, plant and equipment

	Land and buildings £000	Furniture, fixtures and equipment £000	Computer equipment £000	Motor vehicles £000	Total £000
Cost					
At 1 April 2007	28,605	8,802	14,721	2,867	54,995
Additions	4,130	2,798	2,828	307	10,063
Acquisitions	1,428	1,628	23	243	3,322
Disposals	(1,259)	(1,189)	(356)	(1,366)	(4,170)
At 1 April 2008	32,904	12,039	17,216	2,051	64,210
Additions	847	1,945	988	285	4,065
Acquisitions	361	5	307	130	803
Exchange differences	50	78	300	—	428
Disposals	(259)	(1,470)	(1,202)	(1,118)	(4,049)
At 31 March 2009	33,903	12,597	17,609	1,348	65,457
Accumulated depreciation and impairment					
At 1 April 2007	2,926	4,167	8,583	1,299	16,975
Charge for the year	1,378	1,847	2,661	505	6,391
Disposals	—	(750)	(248)	(962)	(1,960)
At 1 April 2008	4,304	5,264	10,996	842	21,406
Charge for the year	1,456	2,447	2,736	67	6,706
Impairment (note 7)	2,323	1,973	485	368	5,149
Exchange differences	7	37	50	2	96
Disposals	(219)	(571)	(899)	(729)	(2,418)
At 31 March 2009	7,871	9,150	13,368	550	30,939
Carrying amount					
At 31 March 2009	26,032	3,447	4,241	798	34,518
At 31 March 2008	28,600	6,775	6,220	1,209	42,804

The carrying amount of the Group's fixtures and equipment includes an amount of £nil (2008: £nil) in respect of assets held under finance leases.

At the balance sheet date, there are no contractual commitments for the purchase of property, plant and equipment (2008: £nil).

18. Subsidiaries

A list of the significant investments in subsidiaries, including the name, country of incorporation and proportion of ownership interest is given in note 47 to the Company's separate financial statements.

19. Interests in joint ventures

The following amounts relate to the results of the interests in joint ventures:

	Doméo £000	2009 Doméo Assistance £000	Total £000	Doméo £000	2008 Doméo Assistance £000	Total £000
Summary balance sheet						
Non-current assets	1,889	147	2,036	1,174	109	1,283
Current assets	32,017	3,142	35,159	24,610	2,654	27,264
Total assets	33,906	3,289	37,195	25,784	2,763	28,547
Current liabilities	(26,499)	(3,348)	(29,847)	(20,400)	(3,875)	(24,275)
Net assets/(liabilities)	7,407	(59)	7,348	5,384	(1,112)	4,272
Group share, 49%	3,629	(29)	3,600	2,638	(545)	2,093
Amount recognisable	3,629	—	3,629	2,638	—	2,638
Goodwill	864	731	1,595	864	—	864
Carrying amount	4,493	731	5,224	3,502	—	3,502
Summary income statement						
Total revenue	49,625	4,303	53,928	25,904	2,017	27,921
Total profit/(loss) after tax	7,043	(86)	6,957	3,582	(635)	2,947
Amount recognisable	3,451	—	3,451	1,755	—	1,755

During the year, a further investment of £731,000 was made in Doméo Assistance, represented as goodwill in the table above.

The Group's share of the above results is only £3,451,000 (2008: £1,755,000) reflecting the net liabilities of the Doméo Assistance joint venture in the current and prior year.

In respect of Doméo Assistance, the Group's unrecognised share of losses for the year is £42,000 (2008: £311,000) and share of cumulative losses is £353,000 (2008: £311,000). Based on the guidance of IAS28 'Investments in Associates', provision for the Group's share of joint venture profits/(losses) are not recognised if the recognition of such losses reduces the Group's share of joint venture's net assets below zero.

In respect of the interests in joint ventures, there are no capital commitments or contingent liabilities which require disclosure (2008: £nil).

20. Inventories

	2009 £000	2008 £000
Raw materials	1,184	1,185
Work-in-progress	7,222	5,378
Finished goods	1,089	1,350
	9,495	7,913

21. Other financial assets

Trade and other receivables

	2009 £000	2008 £000
Amounts receivable for the provision of services	140,050	116,574
Other receivables	47,714	63,128
Loans to joint ventures	777	750
Prepayments and accrued income	17,591	13,463
	206,132	193,915

Notes to the financial statements

year ended 31 March 2009

21. Other financial assets (continued)

Trade receivables

The Group has provided fully for those receivable balances that it does not expect to recover. This assessment has been undertaken by reviewing the status of all significant balances that are past due and involves assessing both the reason for non-payment and the credit worthiness of the counterparty. In addition, an impairment of £7,152,000 has been included to recognise the surplus of the UK Emergency Services assets impairment against the pre-impairment carrying value of the non-current assets, for certain cash-generating units within the division.

Of the trade receivables balance at the end of the year, there is no significant concentration of credit risk, with exposure spread across a large number of counterparties and customers. £5.6m (2008: £5.9m) is due from Royal Bank of Scotland, the Group's largest customer. There are no other customers who represent more than 5% of the total balance of trade receivables.

Included in the Group's trade receivable balance are debtors with a carrying amount of £20.9m (2008: £32.4m) which are past due at the reporting date for which the Group has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Group does not hold any collateral over these balances. The average age of receivables not impaired is 62 days (2008: 37 days).

Ageing of past due but not impaired receivables:

	2009 £000	2008 £000
1–30 days	8,450	13,910
31–60 days	2,930	5,524
61–90 days	1,503	3,858
91 days +	8,304	9,118
Balance at 31 March past due but not impaired	21,187	32,410
Current	118,863	84,164
Balance at 31 March	140,050	116,574

Movement in the allowance for doubtful debts:

	2009 £000	2008 £000
At 1 April	3,461	3,024
Acquisitions	—	713
Impairment losses recognised	2,102	1,112
Recognised as part of UK Emergency Services impairment (note 7)	7,152	—
Amounts written off as uncollectible	(1,097)	(924)
Amounts recovered during the year	(39)	(464)
Balance at 31 March	11,579	3,461

In determining the recoverability of a trade receivable, the Group 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 limited due to the customer base being large and unrelated. Accordingly, the Directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

Ageing of impaired trade receivables:

	2009 £000	2008 £000
1–30 days	296	402
31–60 days	641	83
61–90 days	559	232
91 days +	10,083	2,744
	11,579	3,461

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

Other receivables

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

Cash balances and cash equivalents

Cash balances and cash equivalents of £21,345,000 (2008: £47,198,000) comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amount of these assets approximates their fair value.

22. Derivative financial instruments

	2009 £000	2008 £000
Derivatives that are designated and effective as hedging instruments carried at fair value		
Interest rate swap	1,947	—

The interest rate swap is to hedge loans subject to variable interest rates linked to LIBOR, with a fixed interest rate. Further details are set out in note 43.

23. Bank overdrafts and revolving credit facilities

All of the Group's borrowings are denominated in sterling.

	2009 £000	2008 £000
Bank overdrafts and revolving credit facilities	55,000	90,000
Loan notes	300	304
	55,300	90,304
The borrowings are repayable as follows:		
On demand or within one year	55,300	90,304
	2009 %	2008 %
The weighted average interest rates paid were as follows:		
Bank overdrafts and revolving credit facilities	5.4	6.3
Loan notes	3.6	5.2

All the Group's bank overdrafts and revolving credit facilities are unsecured.

The Directors estimate the fair value of the Group's borrowings as follows:

	2009 £000	2008 £000
Bank overdrafts and revolving credit facilities	55,000	90,000
Loan notes	300	304
	55,300	90,304

Notes to the financial statements

year ended 31 March 2009

23. Bank overdrafts and revolving credit facilities (continued)

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

- Bank overdrafts are repayable on demand.
- The Group has revolving credit facilities with a number of banks totalling £150m (2008: £150m). The revolving credit facility was taken out on 20 December 2007 and has a term of five years.
- Loan notes are repayable on demand, subject to a minimum initial maturity of six months.
- All of the Group's borrowings are currently at floating rates at margins of between 0.1% and 1% above LIBOR, thus exposing the Group to cash flow interest rate risk.
- The covenants associated with the credit facilities are 'net debt to EBITDA of less than three and a half times' and 'interest cover greater than four times operating profit before amortisation'. The Group has complied with all covenant requirements in the current and prior year.

During the previous year, the Group entered into an interest rate swap arrangement with a notional value of £50.0m. This interest rate swap is for a further one year, and requires fixed interest payments of 4.93%, in return for one month LIBOR.

At 31 March 2009, the Group had available £95.0m (2008: £60.0m) of undrawn committed borrowing facilities in respect of which all conditions precedent had been met.

24. Deferred tax

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

	Timings differences including accelerated tax depreciation £000	Unremitted overseas profits £000	Elected goodwill deductions £000	Retirement benefit obligations £000	Share schemes £000	Acquired intangible assets £000	Unutilised losses £000	Acquired property £000	Total £000
At 1 April 2007	(1,118)	—	—	194	8,168	(6,898)	426	(561)	211
Reclassification	308	(308)	—	—	—	—	—	—	—
Reclassification to current tax	170	—	—	—	—	—	—	—	170
(Charge)/credit to income	(364)	(1,536)	(67)	—	1,042	2,764	(554)	37	1,322
(Charge)/credit to equity	—	—	—	(194)	609	—	—	12	427
Acquisitions	(45)	—	—	—	—	(4,480)	1,701	—	(2,824)
At 1 April 2008	(1,049)	(1,844)	(67)	—	9,819	(8,614)	1,573	(512)	(694)
Credit/(charge) to income	3,800	(626)	(17)	—	(489)	6,206	519	10	9,403
Credit/(charge) to equity	—	—	—	537	(4,777)	—	—	—	(4,240)
Exchange differences	—	—	—	—	—	—	426	—	426
Acquisitions	—	—	—	—	—	(706)	—	—	(706)
At 31 March 2009	2,751	(2,470)	(84)	537	4,553	(3,114)	2,518	(502)	4,189

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

	UK	Continental Europe	USA	2009 £000	2008 £000
Deferred tax assets	4,553	1,298	1,220	7,071	11,392
Deferred tax liabilities	(2,882)	—	—	(2,882)	(12,086)
Net deferred tax asset/(liability)	1,671	1,298	1,220	4,189	(694)

At the balance sheet date, the Group has unused tax losses of £23.7m (2008: £19.8m) available for offset against future profits and which can be carried forward indefinitely. A deferred tax asset of £2,518,000 has been recognised in respect of these losses – deferred tax has not been recognised on the remainder of these losses due to the uncertainty over the timing of future recovery.

Temporary differences arising in connection with interests in joint ventures are not material.

25. Current liabilities – trade and other payables

	2009 £000	Restated (note 15) 2008 £000
Trade creditors and accruals	123,051	109,646
Contingent consideration	2,631	3,716
Deferred consideration	2,364	4,155
Payments in advance	1,315	732
Deferred income	894	4,221
Taxes and social security, excluding current tax	5,660	5,643
Other creditors	70,118	73,122
	206,033	201,235

Trade creditors and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 68 days (2008: 67 days).

Other creditors mainly represent liabilities for amounts to be collected from policyholders in respect of underwriting fees, commission and Insurance Premium Tax. In addition, short-term cash advances from customers are included in other creditors until the services are performed and the customer is invoiced.

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

26. Non-current liabilities – other financial liabilities

	Deferred income £000	Restated (note 15) Contingent consideration £000	Deferred consideration £000	Total £000
At 1 April 2008	2,438	287	4,763	7,488
Movement in year	(1,432)	1,409	2,946	2,923
At 31 March 2009	1,006	1,696	7,709	10,411

Contingent consideration and deferred consideration relates to future amounts payable on the acquisitions in the current year of SPT and Endesa policies and the prior period acquisitions of California Water policies and First Energy policies. The movement in the year represents the reclassification of an element of the liability to less than one year, foreign exchange movements and acquisitions in the year.

Deferred income represents Membership Business 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. No discounting is applied to deferred income balances.

27. Share capital

	2009 £000	2008 £000
Authorised:		
70,400,000 ordinary shares of 12½p each	8,800	8,800
Issued and fully paid:		
65,333,000 ordinary shares of 12½p each (2008: 65,172,000 ordinary shares of 12½p each)	8,167	8,147

The Company has one class of ordinary shares which carry no right to fixed income.

Share capital represents consideration received for the nominal value of 12½p per share on all issued and fully paid shares.

During the year the Company issued 161,000 shares for total consideration of £999,000 (2008: 215,000 shares for total consideration of £1,156,000).

Notes to the financial statements

year ended 31 March 2009

28. Share premium account

	£000
Balance at 1 April 2007	31,379
Premium arising on issue of equity shares	1,128
Balance at 1 April 2008	32,507
Premium arising on issue of equity shares	979
Balance at 31 March 2009	33,486

The share premium account represents consideration received for authorised and issued shares in excess of the nominal value of 12½p per share.

29. Merger reserve

	£000
Balance at 1 April 2007, 1 April 2008 and 31 March 2009	70,992

The merger reserve represents the issue on 6 April 2004 of 11,600,000 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 of 12½p and the share price immediately preceding the issue of £6.24½p per share.

30. Own shares reserve

	Number (000)	£000
Balance at 1 April 2007	2,411	25,047
Acquired in the year	417	7,331
Issued from the employee benefit trust	(411)	(2,792)
Balance at 1 April 2008	2,417	29,586
Issued from the employee benefit trust	(307)	(2,063)
Balance at 31 March 2009	2,110	27,523

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 options schemes and are recognised at cost.

31. Share incentive reserve

	£000
Balance at 1 April 2007	4,727
Share-based payment charges in the year	4,131
Share options exercised in the year	(2,308)
Balance at 1 April 2008	6,550
Share-based payment charges in the year	3,217
Share options exercised in the year	(1,386)
Balance at 31 March 2009	8,381

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

32. Capital redemption reserve

	£000
Balance at 1 April 2007, 1 April 2008 and 31 March 2009	1,200

The capital redemption reserve arose on the redemption of 1,200,000 £1 redeemable preference shares on 1 July 2002.

33. Hedging and currency translation reserve

	Hedging reserve £000	Currency translation reserve £000	Total £000
Balance at 1 April 2007	—	64	64
Movement in the year	—	46	46
Balance at 31 March 2008	—	110	110
Loss on cash flow hedge	(1,947)	—	(1,947)
Movement in the year	—	4,173	4,173
Balance at 31 March 2009	(1,947)	4,283	2,336

The currency translation reserve represents the translation of the assets and liabilities of the Group's overseas operations at year end exchange rates.

There were no amounts in the year (2008: £nil) removed from equity and included in the income statement for the period in respect of cash flow hedges.

34. Retained earnings

	£000
Balance at 1 April 2007	139,014
Dividends	(16,893)
Total statement of recognised income and expense	50,463
Share options exercised in the year	2,308
Issue of trust shares	(269)
Current tax on exercised share options taken directly to equity	916
Exchange differences	(46)
Balance at 1 April 2008	175,493
Dividends	(20,415)
Total statement of recognised income and expense	(39,369)
Share options exercised in the year	1,386
Issue of trust shares	(53)
Current tax on exercised share options taken directly to equity	1,129
Exchange differences	(4,173)
Movement in interest rate swap liability	1,947
Balance at 31 March 2009	115,945

35. Business combinations

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

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

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

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

Notes to the financial statements

year ended 31 March 2009

35. Business combinations (continued)

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

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

As these adjustments were not significant, no separate tabular summary of pre-adjusted balance sheets, together with analysis of the line items that these adjustments relate to, has been presented.

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

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

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

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

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

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

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

36. Notes to the cash flow statement

	2009 £000	2008 £000
Operating (loss)/profit	(17,492)	77,489
Adjustments for:		
Depreciation of property, plant and equipment	6,706	6,391
Amortisation of acquisition intangible assets	12,105	10,320
Amortisation of other intangible assets	4,217	2,402
Impairment of UK Emergency Services assets	97,184	—
Share-based payments expense	3,217	4,131
Share of results in joint ventures	(3,451)	(1,755)
Profit/(loss) on disposal of property, plant and equipment and software	527	(52)
Operating cash flows before movements in working capital	103,013	98,926
(Increase)/decrease in inventories	(1,547)	1,592
Increase in receivables	(14,435)	(28,148)
Increase in payables	5,199	24,990
Cash generated by operations	92,230	97,360
Income taxes paid	(21,009)	(24,118)
Interest paid	(5,739)	(6,269)
Net cash from continuing operating activities	65,482	66,973

Cash and cash equivalents (which are presented as a single class of assets on the face of the balance sheet) comprise cash at bank and other short-term highly liquid investments with an original maturity of three months or less.

37. Operating lease arrangements

The Group as lessee

	2009 £000	2008 £000
Minimum lease payments under operating leases recognised in income for the year	7,756	8,292

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

	2009 £000	2008 £000
Within one year	9,571	8,352
In the second to fifth years inclusive	16,424	13,024
After five years	12,472	10,861
	38,467	32,237

Operating lease payments principally represent rentals payable by the Group for certain of its land and buildings and motor vehicles.

Notes to the financial statements

year ended 31 March 2009

38. Share-based payments

During the year ended 31 March 2009, the Group had six (2008: six) share-based payment arrangements, which are described below:

i) Executive Share Option Plan ('ESOP')

The ESOP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The vesting period is three years and is dependent upon the real increase in Earnings Per Share over the vesting period. In addition, since 2006, vesting has also been dependant upon a share price target. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

ii) 2005 Key Executive Incentive Plan ('KEIP')

The KEIP provides for a grant price equal to the closing quoted market price of the Company's shares on the day before the date of grant. The awards vest in two tranches, the first being between three and four years from the date of grant and the second being on the second anniversary of the vesting of the first tranche. The number of awards vesting is dependent upon the Profit Before Tax of the Group for the year ended 31 March 2009 and is subject to a minimum share price criteria during the year ending 31 March 2009. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iii) Long Term Incentive Plan ('LTIP')

The LTIP provides for the grant of nil cost options. The vesting period is between three and five years and is dependent upon the Total Shareholder Return performance of the Group over the relevant performance period. If the options remain unexercised after a period of 10 years from the date of grant, the options expire.

iv) Deferred Bonus Plan ('DBP')

The DBP enables the individual to defer receipt of their annual cash bonus (up to a maximum of 100%) and to invest an equivalent amount in the ordinary share capital of the Company. The deferred bonus may be matched by the Company dependent upon the Company's relative Total Shareholder Return over a three year period, up to a maximum of 300% of the deferred amount for upper decile performance. The shares cannot normally be exercised for three years and lapse if not exercised within 10 years from the date of grant.

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

The SAYE is 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.

vi) Conditional Share Schemes ('CSS')

Awards under the CSS vest in three tranches on the first (25%), second (25%) and third (50%) anniversary of the grant.

	ESOP	KEIP	LTIP	DBP ¹	SAYE	CSS
2008						
Number						
Outstanding at 1 April 2007	2,302,119	1,456,130	466,440	170,188	649,082	49,207
Granted	653,242	—	15,732	96,038	156,259	—
Expired	(132,007)	(181,000)	(24,485)	(10,738)	(71,869)	—
Exercised	(409,213)	—	(34,515)	—	(9,169)	(12,301)
Outstanding at 31 March 2008	2,414,141	1,275,130	423,172	255,488	724,303	36,906
Exercisable at 31 March 2008	855,373	—	—	—	153,239	—
Weighted average exercise price (£)						
Outstanding at 1 April 2007	8.82	11.70	—	—	9.33	—
Granted	17.18	—	—	—	14.50	—
Expired	14.18	11.80	—	—	11.14	—
Exercised	6.73	—	—	—	5.95	—
Outstanding at 31 March 2009	11.14	11.68	—	—	10.31	—
Exercisable at 31 March 2009	5.74	—	—	—	5.21	—
Range of exercise price of options outstanding at 31 March 2008						
£0.00 to £4.99	237,500	—	—	—	32,223	—
£5.00 to £9.99	1,039,873	897,000	—	—	374,499	—
£10.00 to £14.99	512,316	68,000	—	—	317,581	—
£15.00 to £19.99	624,452	310,130	—	—	—	—
Weighted average remaining contractual life	7	8	1	1	3	2
Weighted average fair value of options awarded in 2008	£3.93	—	£8.58	£6.98	£5.21	—
	ESOP	KEIP	LTIP	DBP ¹	SAYE	CSS
2009						
Number						
Outstanding at 1 April 2008	2,414,141	1,275,130	423,172	255,488	724,303	36,906
Granted	—	—	595,637	—	490,920	—
Lapsed	(288,124)	(829,138)	(50,939)	—	(238,080)	—
Exercised	(269,089)	(85,953)	(43,232)	—	(201,216)	—
Outstanding at 31 March 2009	1,856,928	360,039	924,638	255,488	775,927	36,906
Exercisable at 31 March 2009	1,032,377	253,489	—	50,769	44,346	12,302
Weighted average exercise price (£)						
Outstanding at 1 April 2008	11.14	11.68	—	—	10.31	—
Granted	—	—	—	—	7.60	—
Lapsed	15.19	9.49	—	—	12.85	—
Exercised	8.70	10.56	—	—	6.32	—
Outstanding at 31 March 2009	10.87	12.49	—	—	8.85	—
Exercisable at 31 March 2009	6.87	10.18	—	—	9.18	—
Range of exercise price of options outstanding at 31 March 2009						
£0.00 to £4.99	182,262	—	—	—	—	—
£5.00 to £9.99	850,115	213,556	—	—	637,253	—
£10.00 to £14.99	345,391	23,409	—	—	138,674	—
£15.00 to £19.99	479,160	123,074	—	—	—	—
Weighted average remaining contractual life	6	7	1	—	3	1
Weighted average fair value of options awarded in 2009	—	—	—	—	2.64	—

¹ The figures in the table relate to the number of deferred options only.

The weighted average share price at the date of exercise for share options exercised during the year was £14.87 (2008: £18.31).

Notes to the financial statements

year ended 31 March 2009

38. Share-based payments (continued)

The estimated fair values are calculated by applying a Black-Scholes option pricing model for the ESOP and SAYE and Monte Carlo simulations for the KEIP, LTIP and DBP. The assumptions used in the models are as follows:

Input	Assumption
Share price	Price at date of grant
Exercise price	Per scheme rules
Expected volatility	20% – 30%
Option life	Per scheme rules
Expected dividends	Based on historic dividend yield
Risk-free interest rate	3.8% – 5.2%

Levels of early exercises and lapses are estimated using historical averages.

The Group recognised total expenses of £3,217,000 (2008: £4,131,000) related to equity-settled share-based payment transactions.

39. Retirement benefit schemes

Defined contribution schemes

The Group operates a defined contribution retirement benefit scheme for all qualifying employees. The assets of the scheme are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the scheme prior to the contributions fully vesting, the contributions paid by the Group are forfeited by the employee.

The total cost charged to income of £2,890,000 (2008: £2,847,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. At 31 March 2009, contributions of £nil (2008: £nil) 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, for qualifying employees. This is a sectionalised final salary scheme and the Group participates in the HomeServe plc Section of the Scheme. The Section funds are administered by the trustees and are independent of the Group's finances. Contributions are paid to the Section in accordance with the recommendations of an independent actuarial adviser. The Section has a history of raising pensions in line with price inflation, and these increases are reflected in the measurement of the obligation.

The results of the actuarial valuation as at 31 March 2008 were updated to the accounting date by an independent qualified actuary in accordance with IAS19. As required by IAS19, the value of the defined benefit obligation, the past service cost and the current service cost have been measured using the projected unit credit method.

	2009	Valuation at 2008
Key assumptions used:		
Discount rate at 31 March	6.9%	6.5%
Retail price inflation	3.4%	3.7%
Expected rate of salary increases	4.9%	5.7%
Future pension increases	3.4%	3.7%
Expected rate of return on scheme assets at 31 March	8.0%	7.7%
Life expectancy of male aged 60 at balance sheet date	26.3 years	26.8 years

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

	2009 £000	2008 £000
Current service cost	430	603
Interest cost	874	767
Expected return on scheme assets	(1,033)	(1,087)
Past service cost	108	196
	379	479

Of the charge for the year, £379,000 (2008: £479,000) has been included in operating costs. Actuarial gains and losses have been reported in the statement of recognised income and expense.

The actual return on scheme assets was a loss of £3,410,000 (2008: loss of £874,000).

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

	2009 £000	2008 £000
Present value of defined benefit obligations	(12,363)	(13,283)
Fair value of scheme assets	10,444	13,458
(Deficit)/surplus in scheme	(1,919)	175
Non-recognition of surplus	—	(175)
Liability recognised in the balance sheet	(1,919)	—

This amount is presented in the balance sheet as follows:

	2009 £000	2008 £000
Non-current liabilities	1,919	—

In the prior year the Group opted not to recognise in the balance sheet any surplus on its defined benefit scheme as there was no anticipated refund due from the scheme nor the expectation of a lower schedule of contributions as a result of the surplus.

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

	2009 £000	2008 £000
At 1 April	13,283	14,535
Employer's part of the current service cost	430	603
Interest cost	874	767
Contributions from scheme members	73	94
Actuarial gains and losses	(2,219)	(2,675)
Benefits paid	(186)	(237)
Past service cost	108	196
At 31 March	12,363	13,283

Notes to the financial statements

year ended 31 March 2009

39. Retirement benefit schemes (continued)

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

	2009 £000	2008 £000
At 1 April	13,458	13,888
Expected return on scheme assets	1,033	1,087
Actuarial gains and losses	(4,443)	(1,961)
Contributions from the sponsoring companies	582	587
Contributions from scheme members	—	94
Benefits paid	(186)	(237)
At 31 March	10,444	13,458

Note – ‘benefits paid’ represents an inflow into the Section as a result of transfer payments received.

The amount recognised outside profit or loss in the statement of recognised income and expense for 2009 is a loss of £2,049,000 (2008: gain of £714,000). The cumulative amount recognised outside profit and loss at 31 March 2009 is a loss of £1,650,000.

The analysis of the scheme assets and the expected rate of return at the balance sheet date was as follows:

	Expected return		Fair value of assets	
	2009 %	2008 %	2009 £000	2008 £000
Equity instruments	8.0	7.7	10,439	13,457
Other assets	4.2	4.4	5	1
			10,444	13,458

The overall expected rate of return on assets for the financial year ending 31 March 2009 was 8.0% p.a. (2008: 7.8% p.a.). This rate is derived by taking the weighted average of the long-term expected rate of return on each of the asset classes that the Section was invested in at 31 March 2008.

The history of experience adjustments is as follows:

	2009 £000	2008 £000	2007 £000	2006 £000	2005 £000
Present value of defined benefit obligations	(12,363)	(13,283)	(14,535)	(13,200)	(9,854)
Fair value of scheme assets	10,444	13,458	13,888	12,044	7,276
Surplus/(deficit) in scheme	(1,919)	175	(647)	(1,156)	(2,578)
Experience adjustments on scheme liabilities					
Amount of loss/(gain) (£000)	807	(164)	144	95	(107)
Percentage of scheme liabilities (%)	7	1	1	1	(1)
Experience adjustments on scheme assets					
Amount of loss/(gain) (£000)	4,443	1,961	(420)	(1,628)	(206)
Percentage of scheme assets (%)	43	15	(3)	(14)	(3)

The estimated amounts of contributions expected to be paid to the scheme during the current financial year is £0.8m (2008: £0.6m) plus any Pension Protection Fund levy payable.

40. Events after the balance sheet date

There were no post-balance sheet events between the balance sheet date and the signing of the financial statements.

41. Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Company and its subsidiaries are disclosed in the Company's separate financial statements (note 53).

Trading transactions

During the year, Group companies entered into the following transactions with related parties who are not members of the Group:

	Provision of goods		Purchase of services		Amounts owed by related parties		Amounts owed to related parties	
	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000	2009 £000	2008 £000
Harpin Limited	—	2	232	301	—	—	35	98
Pilot Services (GB) Limited	—	—	39	59	—	—	5	23
Joint ventures	2,026	1,332	—	—	1,581	750	—	—

Harpin Limited and Pilot Services (GB) Limited are related parties of the Group because they are controlled by Richard Harpin.

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

Remuneration of key management personnel

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

	2009 £000	2008 £000
Short-term employee benefits	5,258	4,535
Post-employment benefits	488	516
Share-based payment	1,767	2,002
	7,513	7,053

Directors' transactions

During the year, the Group purchased transport services from Harpin Limited and Pilot Services (GB) Limited, companies controlled by Richard Harpin. The total value of purchases amounted to £271,000 (2008: £360,000) and the balance due to Harpin Limited and Pilot Services (GB) Limited at the year end amounted to £40,000 (2007: £121,000).

Except as noted above with Harpin Limited and Pilot Services (GB) Limited, there were no transactions with Directors requiring disclosure.

Notes to the financial statements

year ended 31 March 2009

42. Insurance contracts

During previous years the Group, through its subsidiary Affinity Partners Limited, entered into contracts of reinsurance with an independent insurance company that underwrites the policies marketed and administered by HomeServe Membership Limited. Under these arrangements, Affinity Partners Limited underwrote 49% of the risk and reward associated with these policies ('the policies').

The policies were entered into between the customers of HomeServe Membership Limited and an independent insurance company in the United Kingdom only. The policies are principally in relation to underwritten cover for a broad range of domestic emergencies relating to Plumbing and Drains, Electrical Wiring, Water and Gas Supply Pipes and Gas Boilers.

Revenue from the reinsurance contracts is recognised on a straight-line basis over the life of the policies (typically 12 months), reflecting the period of benefit to the customer. Where the reinsurance premium is received in advance, an appropriate amount is included within deferred income.

The costs associated with the claims received under the contract of reinsurance are recognised as they are incurred. An assessment is made of whether the expected cash inflows under the reinsurance contracts are sufficient to meet the expected future claims costs under the reinsurance contracts. If a shortfall were to arise, this would be charged immediately to the income statement.

Affinity Partners ceased to underwrite new policies from 1 October 2007.

The amounts recognised by the Group in respect of reinsurance contracts are as follows:

	2009 £000	2008 £000
Revenue	3,505	39,421
Claims costs	(2,012)	(34,509)
Deferred income	—	3,036

The principal impact on the amount of claims incurred under the reinsurance contracts relate to weather conditions, which can impact the frequency of claims and the nature of the emergency. In order to assist in managing the risk arising from the policies, the claims costs are fixed for each type of emergency repair.

There is no concentration of insurance risk due to the immaterial size of each of the policies. Neither the policies or the reinsurance contract are exposed to any significant liquidity risk, credit risk, market risk, nor are there any exposures relating to embedded derivatives.

As the policies relate to emergency repairs and generally cover a 12 month period, all cash outflows are expected to occur within 12 months from the date of commencement of the policies.

On a weighted average basis, across all policies, a one percentage point increase in claims frequencies would result in additional claims costs of £nil (2008: £0.1m).

43. Financial instruments

Principal financial instruments

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

Group

- cash and cash equivalents
- bank overdrafts and revolving credit facilities
- trade receivables
- loans to joint ventures
- trade payables
- loan notes

Company

- cash and cash equivalents
- bank overdrafts and revolving credit facilities
- trade receivables
- inter-company receivables and payables
- trade payables

All principal financial instruments are stated at amortised cost.

Capital risk management

The Group manages its capital to ensure that entities in the Group are able to continue as going concerns while maximising the return to stakeholders through the appropriate balance of debt and equity. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 27 to 34.

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

	2009 £000	2008 £000
Shareholders' funds	212,984	265,413
Bank overdrafts and revolving credit facilities	55,000	90,000
Unsecured loan notes	300	304

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

Financial risk management objectives

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

Classification of financial instruments

In addition to the other financial assets and liabilities disclosed in notes 21, 23 and 25, the Group has derivative instruments in designated hedge accounting relationships with a notional value of £50.0m (2008: £50.0m) and a carrying value and fair value of £1,947,000 liability (2008: £nil). The fair value of these derivative instruments has been calculated by discounting the expected future cash flows at prevailing interest rates, sourced from observable market data.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt requirements with floating interest rates. The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. To manage this, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed upon notional principal amount. These swaps are designated to hedge underlying debt obligations.

Notes to the financial statements

year ended 31 March 2009

43. Financial instruments (continued)

The maturity profile of the Group's financial liabilities is provided in the table below. Interest is payable on the bank overdraft and revolving credit facilities and loan notes. Deferred and contingent consideration payments are stated on the basis of expected cash outflows, before discounting.

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Loan notes £000	Deferred and contingent consideration £000	Total £000
2009					
Under 2 months	55,000	123,051	300	1,702	180,053
Between 2 and 6 months	—	—	—	657	657
Between 6 and 12 months	—	—	—	3,054	3,054
Between 1 and 2 years	—	—	—	2,037	2,037
Between 2 and 3 years	—	—	—	2,730	2,730
Between 3 and 4 years	—	—	—	2,606	2,606
Between 4 and 5 years	—	—	—	822	822
After 5 years	—	—	—	3,290	3,290
Total	55,000	123,051	300	16,898	195,249

	Bank overdrafts and revolving credit facilities £000	Trade payables £000	Loan notes £000	Deferred and contingent consideration £000	Total £000
2008					
Under 2 months	50,000	109,646	304	—	159,950
Between 2 and 6 months	40,000	—	—	280	40,280
Between 6 and 12 months	—	—	—	8,061	8,061
Between 1 and 2 years	—	—	—	847	847
Between 2 and 3 years	—	—	—	4,230	4,230
Between 3 and 4 years	—	—	—	586	586
Between 4 and 5 years	—	—	—	586	586
After 5 years	—	—	—	3,188	3,188
Total	90,000	109,646	304	17,778	217,728

The Group has entered into an interest rate swap in order to manage the interest rate risks arising from the Group's operations and its sources of finance. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken.

At 31 March 2009 the Group had in place an interest rate swap to hedge loans subject to variable interest rates linked to LIBOR whereby it receives a floating rate of interest based on one month LIBOR on a notional principal of £50m (2008: £50m) and pays a fixed rate of interest of 4.9% (2008: 4.9%). The remaining term of the interest rate swap is one year. The fair value of the interest rate swap at 31 March 2009 was £1,947,000 liability (2008: £nil). The timing of the impact on the income statement of the swap is up to one year from the balance sheet date. The impact of the cash flow hedge on the income statement will be expensed through the finance cost line.

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

	2009	2008
Increase in interest rate	10%	10%
Reduction in profit before tax (£000)	422	517

Foreign currency risk

The Group has exposure to fluctuations in foreign currencies where it has investments in overseas operations which are affected by foreign exchange movements.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities at the year end are as follows:

	Assets		Liabilities	
	2009 £000	2008 £000	2009 £000	2008 £000
Euro	31,762	42,494	(25,584)	(42,891)
US dollar	39,968	20,174	(44,733)	(27,837)

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 Group's profit before tax.

	2009	2008
Increase in £:\$ exchange rate:	10%	10%
Effect on profit before tax (£000)	51	266
Effect on equity (£000)	1,255	697
Increase/(decrease) in £:€ exchange rate:	10%	10%
Effect on profit before tax (£000)	501	(2)
Effect on equity (£000)	194	36

Credit risk

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

The majority of the Group's trade receivables consist of a large number of individual members and hence for these balances the Group does not have any significant credit risk exposure to a single counterparty. In addition, receivable balances within our Emergency Services business are monitored on an ongoing basis. As a result, the Group's exposure to bad debts is not considered to be significant.

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

The Group manages the risk associated with cash and cash equivalents through depositing funds only with reputable and creditworthy banking institutions. The risk associated with the investment in joint ventures is mitigated through the close management and regular review of the performance of the assets.

The Group has a maximum exposure equal to the carrying amount of the above receivables and instruments.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Group's Board which sets the framework for the management of the Group's short-, medium- and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and continuously monitoring forecast and actual cash flows. Included in note 23 are details of the undrawn facilities that are available to the Group to further reduce liquidity risk.

With the exception of deferred and contingent consideration, all of the Group's financial liabilities are due for payment within one year, based on contractual payment terms.