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Homeserve plc 2006/7 Interim Report

Highlights of the Period

	2006	2005	Increase
Revenue	£206.0m	£149.6m	38%
Operating Profit*	£17.3m	£13.1m	32%
Profit before Tax*	£16.2m	£12.7m	28%
Profit before Tax	£13.3m	£11.5m	16%
Earnings per Share*	18.0p	14.0p	28%
Earnings per Share	14.7p	12.1p	22%

- **Operating profit* increased by 32% to £17.3m;**
- **Profit before tax* increased by 28% to £16.2m;**
- **UK utility branded new policy sales of 575,000 (2005: 560,000 excluding acquired policies);**
- **Marketing agreement with FirstEnergy in US marks a step change in international development;**
- **Emergency Repair businesses performing strongly. Acquisition of DIS on 26 October brings complementary claims validation for contents replacement;**
- **Earnings per share* increased by 28% to 18.0p;**
- **Profit before tax, including amortisation of acquisition intangibles increased by 16% to £13.3m.**

* Excluding amortisation of acquisition intangibles, see income statement and notes 2 & 4.

Chairman's Statement

Brian Whitty Executive Chairman

We had an excellent first half maintaining our record of strong profits growth. Additionally, we achieved an increase in the number of new UK policies sold, the signing of a major power utility as a partner in the US and the extension of our service offering within our Emergency Repair division.

Interim Results

In the six months ended September 2006 revenue increased by 38% to £206.0m (September 2005: £149.6m). Operating profit* increased by 32% to £17.3m (September 2005: £13.1m). These results include revenue of £32.3m and operating profit* of £0.6m from Improveline and the glazing division of Pilkington, which were acquired in December 2005 and April 2006 respectively. Profit before tax increased by 16% to £13.3m (September 2005: £11.5m).

The effective tax rate (see note 3) is unchanged at 31.0% (September 2005: 31.0%). Earnings per share* increased by 28% to 18.0p (September 2005: 14.0p). Basic earnings per share increased to 14.7p from 12.1p.

The Board has approved an interim dividend to be paid on 3 January 2007 of 7.5p (September 2005: 6.1p), an increase of 23.0%, providing an interim dividend payment of £4.7m (September 2005: £3.9m).

Cash generated from operations was £23.0m (September 2005: £24.3m) including a net reduction in working capital of £1.0m (September 2005: £7.8m). Net debt at 30 September amounted to £44.5m (September 2005: £12.8m) principally reflecting the acquisitions and loan notes issued during the period of £26.1m and the purchase of shares by the Employee Benefit Trust to hedge our share scheme obligations of £7.6m.

Policy Membership

Revenue and operating profit* of these businesses increased by 18% to £73.7m and 26% to £13.1m respectively. These results include strong organic growth in Homeserve GB, an increase of £1.0m to £2.2m in the amount invested in developing international operations, principally the US, and an improved performance by the retail warranty business. The total number of utility branded policies, including International, has increased to 5.86m (September 2005: 4.73m, March 2006: 5.52m).

* before amortisation of acquisition intangibles – see income statement and notes 2 & 4.

strong growth

"Policy sales in the UK, France and US are ahead of the same period last year and our Emergency Repair division has reported strong growth with an increase in overall activity levels."

Homeserve GB

Our UK utilities branded policy business combined strong growth in profits with new policy sales of 575,000 (September 2005: 560,000 excluding 104,000 housebuilder policies acquired in August 2005) bringing the total number of policies to 5.21m (September 2005: 4.31m, March 2006: 4.97m). Revenue increased by 17% to £67.5m (September 2005: £57.5m). As at 30 September 2006 total policies were:

- 3.50m in plumbing & drains and water supply pipe (September 2005: 2.98m, March 2006: 3.35m)
- 0.77m in electrical (September 2005: 0.66m, March 2006: 0.76m)
- 0.94m in other including gas supply pipe and housebuilder policies (September 2005: 0.67m, March 2006: 0.86m)

The principal increase in policies has been for water supply pipe and gas supply pipe. The number of customers increased to 2.84m (September 2005: 2.50m, March 2006: 2.79m). In addition, the number of policies per customer increased to 1.83 (September 2005: 1.73, March 2006: 1.78). The majority of our marketing investment in the first half has been in cross sell initiatives to existing members. Marketing activity will continue to be more heavily weighted towards the second half.

The average acquisition cost per policy has remained stable and customer retention rates remain at the high level of 87%.

During the period, our focus on 'customer delight' ensured that 27% (March 2006: 20%) rated our service as outstanding, although overall satisfaction levels have reduced slightly to 94% (September 2006: 96%, March 2006: 96%).

We announced earlier in the month that Jon Florsheim will shortly be joining our Board. Jon, who is currently Chief Marketing Officer and Managing Director, Customer Group at BSkyB Limited, will take responsibility for the continued development of Homeserve GB as its Chief Executive. This appointment will enable Richard Harpin, who took day-to-day responsibility for this business following Jonathan King's move to our US business in July 2005, to concentrate full time on his Homeserve plc Chief Executive role. We look forward to welcoming Jon to the Homeserve team.

Homeserve International

Revenue in the first six months including our share of our joint venture in France was £3.2m (September 2005: £1.8m) and the operating loss* was £2.2m (September 2005: £1.2m loss). The majority of this increased investment was in our US operation, where in August we announced the signing of a major marketing agreement with FirstEnergy.

Chairman's Statement

The total number of international policies has increased to 646,000 (September 2005: 419,000, March 2006: 549,000).

Doméo, our joint venture with Veolia in France has increased policies to 480,000 (September 2005: 316,000, March 2006: 416,000). Doméo now employs 150 people, including claims handling, which we have provided in house since February 2006. The number of policies per customer increased to 1.58 (March 2006: 1.50) in the period and retention rates increased to 89% (March 2006: 87%).

Doméo commenced test marketing with one of France's major regional gas companies, Gaz De Bordeaux, in November 2006. Initial testing is of gas supply pipe and electric wiring cover, and overall this agreement will provide access to up to 0.2m households.

Our business in the US is continuing to make good progress. In August 2006, we signed a five year marketing agreement with FirstEnergy Corp to market home energy policies to their 3.4 million households in Ohio and Pennsylvania. As part of the transaction, we acquired 20,000 existing electrical wiring, gas supply pipe, water line and sewer line policies. This represented a step change in the development of our US business, bringing the total number of households to which Homeserve can market to almost 5 million. The first major marketing campaign to FirstEnergy customers will commence in late November, targeted initially at 1.0 million households.

The prospects for potential new water and power company partners continue to be encouraging, with a particular focus on the larger energy companies.

We now have 166,000 policies in the US (September 2005: 95,000, March 2006: 128,000). The number of policies per customer reached 1.25 (March 2006: 1.22) and retention rates are running at 92% when "billed on the bill" and 78% when billed separately, reflecting the relatively low level of continuous payment methods used in the USA. New customer and policy acquisition levels with our five existing affinity partners have continued to meet our expectations.

In September, we moved to larger premises in Miami in order to accommodate our anticipated future growth. We now employ 77 people including claims handling which we have provided since September 2006. This enables us to achieve greater control over the quality of service delivery to our policyholders and provides increased confidence for prospective partners.

In November 2006 we commenced testing with Endesa, the largest energy company in Spain with 8.5 million domestic customers with an initial mailing of electrical wiring cover to 0.1 million households.

Homeserve Retail and Manufacturer Warranties

Revenue in the first six months was £5.0m (September 2005: £4.2m). Within Manufacturer Warranty, the number of policies has increased to 156,000 (September 2005: 115,000, March 2006: 144,000) with growth across all major accounts. This growth results from continued improvements in our direct marketing through innovative products and data mining techniques. This has resulted in good growth in customer data records through increased warranty card registration rates and subsequent conversion to fully paid warranties. In addition, we have launched our 'Instant Cover' policies where customers are offered a policy and fixed price repair when calling us or the appliance manufacturer in response to a boiler or appliance breakdown.

The Retail Warranty business achieved a breakeven result for the first half (September 2005: £0.6m loss). This improved performance has resulted from the sign up of new retail customers, combined with a reduction in the cost base of the business. Further progress is expected in the second half of the year.

Emergency Repair

Revenue and operating profit* of these businesses increased by 52% and 57% to £137.6m and £4.2m respectively. The acquisitions of Pilkington and Improveline contributed revenue of £32.3m (September 2005: £nil) and operating profit* of £0.6m (September 2005: £nil). Organic growth of 16% in revenue and 34% in operating profit* was also achieved.

The Emergency Repair businesses are continuing to make good progress in developing their integrated range of emergency trades provided to homeowners via their Household Insurers, as well as our own policy members. Our offering was strengthened with the acquisition of Digital Insurance Services Limited (DIS) in October 2006. DIS is a leading provider of home insurance contents, claims validation and fulfilment services and is highly complementary to our existing services provided to Household Insurers. The acquisition now enables us to provide a complete solution to a major insurance claim.

Chairman's Statement

In order to develop our multi-trade offer further, we are in the process of implementing common job management systems across each of our Emergency Repair businesses, enabling us to increase the efficiency of our complete repair service for Household Insurers. This will assist in winning more multi-trade deals similar to that provided to Liverpool Victoria. In addition, we have purchased market leading claims handling software provided by Guidewire Software, Inc, a leading provider of these systems in the USA, which will enable us to offer a first point of claims notification service to Household Insurers for their domestic customers. This system will be live by late 2007.

Homeserve Glass, Plumbing and Drains

This business has delivered another strong performance in the first half. Revenue increased by 20% to £37.1m (September 2005: £30.8m).

Fitter Package, our engineer incentive scheme, continues to deliver improvements in service delivery and productivity. Fitter Package is currently being tested in our directly employed first fix plumbing and drains operation and should be fully implemented by the end of the financial year following its success in Glass.

The conversion of leads to invoiced sales within Glass, a key productivity measure, increased to 92% (March 2006: 90%) and reflects the operational benefits associated with improved workflow management and IT system enhancements. This has been combined with a change in the mix of work towards larger claims, which has compensated for the continued reduction in claims volumes experienced across the market.

The acquisition of the glazing division of Pilkington in April 2006 brought additional Household Insurance customers and 44 directly employed glaziers. We are currently in the process of fully integrating this business with our existing network. Pilkington contributed revenues in the first half of £5.9m.

Homeserve Property Repairs

Revenue in the first six months increased by 146% to £60.2m (September 2005: £24.4m), including £26.5m from Improveline which was acquired in December 2005. Our two property repair businesses have experienced high levels of activity in the first half of the year. In particular, the number of claims received in our existing building repair network has increased by 66%, with our first multi-trade assistance contract contributing strong growth. The integration of Improveline with our existing building repair network is expected to be completed by late 2007.

These businesses are performing well and are ideally positioned to benefit from additional volumes in the seasonally busier second half of the year.

Fire and Flood Restoration

Chem-Dry contributed revenue of £23.3m (September 2005: £22.4m). The fire and flood restoration business is performing well, although profits have been held back in the first half of the year by our investment in developing a national directly employed carpet inspection, cleaning and replacement network. This is a market which is poorly served and we believe that there is a significant opportunity for us to provide a high quality service to Household Insurers, complementing our other networks. We expect to see volumes for this work start to increase in the second half of the year.

Prospects

We expect our Policy Membership business in the UK to continue to see policy and profits growth in the second half, its busiest period of the year. Internationally, we expect to see further growth in the number of policies, particularly in the US as we increase our marketing activity following the addition of FirstEnergy as a new partner. We are continuing to make good progress in developing our pipeline of potential new US partners.

Our Emergency Repair businesses are performing strongly and are well positioned to benefit from continued high levels of activity particularly for building repairs, during the busy winter period.

As in prior years, profits will continue to be significantly weighted to the second half of the year. This reflects the seasonal profile for both policy renewal and emergency repair work.

The Directors remain confident of Homeserve's prospects for the year.

Brian Whitty
Executive Chairman
27 November 2006

Group Income Statement

for the six months ended 30 September 2006

	Note	Six months ended 30 September 2006 £'000 (Unaudited)	Six months ended 30 September 2005 £'000 (Unaudited)	Year ended 31 March 2006 £'000 (Audited)
Continuing Operations				
Revenue	2	205,975	149,630	367,001
Operating costs:				
Amortisation of intangible assets on acquisition		(2,898)	(1,214)	(3,658)
Other operating costs		(188,416)	(136,552)	(312,919)
Operating costs		(191,314)	(137,766)	(316,577)
Share of results of joint ventures		(268)	—	328
Operating profit	2	**14,393**	**11,864**	**50,752**
Investment income		576	431	702
Finance costs		(1,660)	(813)	(1,478)
Profit before tax and amortisation of intangible assets on acquisition		**16,207**	**12,696**	**53,634**
Amortisation of intangible assets on acquisition		(2,898)	(1,214)	(3,658)
Profit before tax		**13,309**	**11,482**	**49,976**
Tax	3	(4,156)	(3,936)	(15,527)
Profit for the period, being attributable to equity holders of the parent		**9,153**	**7,546**	**34,449**
Dividends per share	5	**7.5p**	**6.1p**	**20.0p**
Earnings per share	4			
Basic		**14.7p**	**12.1p**	**55.1p**
Diluted		**14.2p**	**11.8p**	**53.6p**

Group Statement of Recognised Income and Expense

for the six months ended 30 September 2006

	Note	Six months ended 30 September 2006 £'000 (Unaudited)	Six months ended 30 September 2005 £'000 (Unaudited)	Year ended 31 March 2006 £'000 (Audited)
Exchange differences on translation of foreign operations	7	(60)	117	120
Actuarial losses on defined benefit pension scheme		(186)	(850)	(422)
Current tax on additional pension contribution		132	—	468
Deferred tax on items taken directly to equity		(46)	255	(415)
Net expense recognised directly in equity		**(160)**	**(478)**	**(249)**
Profit for the period		9,153	7,546	34,449
Total recognised income and expense for the period attributable to equity holders of the parent		**8,993**	**7,068**	**34,200**

Group Balance Sheet

30 September 2006

	Note	30 September 2006 £'000 (Unaudited)	30 September 2005 £'000 (Unaudited)	31 March 2006 £'000 (Audited)
Non-current assets				
Goodwill		189,263	165,945	187,022
Other intangible assets		37,168	20,451	31,824
Property, plant and equipment		32,363	25,243	30,727
Interests in joint ventures		924	864	1,192
Deferred tax asset		—	736	—
		259,718	213,239	250,765
Current assets				
Inventories		6,852	2,318	5,708
Trade and other receivables		115,296	86,240	127,913
Cash and cash equivalents		21,824	13,284	17,081
		143,972	101,842	150,702
Total assets		**403,690**	**315,081**	**401,467**
Current liabilities				
Trade and other payables		(126,053)	(91,256)	(133,339)
Current tax liabilities		(7,269)	(7,689)	(10,164)
Bank overdrafts and loans		(66,280)	(26,042)	(33,411)
		(199,602)	(124,987)	(176,914)
Net current liabilities		**(55,630)**	**(23,145)**	**(26,212)**
Non-current liabilities				
Other financial liabilities		(3,542)	(13,574)	(18,785)
Retirement benefit obligation		(983)	(3,428)	(1,156)
Deferred tax liabilities		(2,006)	—	(3,503)
		(6,531)	(17,002)	(23,444)
Total liabilities		**(206,133)**	**(141,989)**	**(200,358)**
Net assets		**197,557**	**173,092**	**201,109**
Equity				
Share capital	7	8,108	8,062	8,075
Share premium account	7	30,925	29,360	29,998
Merger reserve	7	70,992	70,992	70,992
Own shares reserve	7	(24,226)	(16,189)	(16,668)
Share incentive reserve	7	2,989	2,072	1,626
Capital redemption reserve	7	1,200	1,200	1,200
Currency translation reserve	7	60	117	120
Retained earnings	7	107,509	77,478	105,766
Total equity		**197,557**	**173,092**	**201,109**

Group Cash Flow Statement

for the six months ended 30 September 2006

	Note	Six months ended 30 September 2006 £'000 (Unaudited)	Six months ended 30 September 2005 £'000 (Unaudited)	Year ended 31 March 2006 £'000 (Audited)
Operating profit		**14,393**	**11,864**	**50,752**
Adjustments for:				
Depreciation of property, plant and equipment		2,301	1,754	4,115
Amortisation of intangible assets on acquisition		2,898	1,214	3,658
Amortisation of other intangible assets		880	719	1,468
Share based payments expense		1,541	872	2,058
Share of results in joint ventures		268	—	(328)
(Profit)/loss on disposal of property, plant and equipment		(300)	47	128
Additional pension contributions		—	—	(2,000)
Operating cash flows before movements in working capital		**21,981**	**16,470**	**59,851**
(Increase)/decrease in inventories		(1,078)	122	(513)
Decrease/(increase) in receivables		14,891	13,300	(27,786)
(Decrease)/increase in payables		(12,794)	(5,639)	24,077
Net movement in working capital		**1,019**	**7,783**	**(4,222)**
Cash generated by operations		**23,000**	**24,253**	**55,629**
Income taxes paid		(7,167)	(5,237)	(13,871)
Interest paid		(1,799)	(137)	(1,478)
Net cash flow from continuing operating activities		**14,034**	**18,879**	**40,280**
Net cash (outflow)/inflow from discontinued operating activities		—	(5,132)	766
Net cash flow from operating activities		**14,034**	**13,747**	**41,046**
Investing activities				
Interest received		576	431	702
Proceeds on disposal of property, plant and equipment		553	220	301
Purchases of intangible assets		(629)	(305)	(1,572)
Purchases of property, plant and equipment		(4,060)	(5,583)	(14,468)
Acquisition of subsidiary undertakings	8	(12,406)	(18,268)	(34,674)
Disposal of subsidiary undertakings		—	(1,342)	(1,342)
Net cash flow from discontinued investing activities		—	669	669
Net cash used in investing activities		**(15,966)**	**(24,178)**	**(50,384)**
Financing activities				
Dividends paid		(8,668)	(6,830)	(10,688)
Repayments of borrowings		—	(2)	(2)
Repayments of obligations under finance leases		—	(30)	(30)
Purchase of own shares		(7,558)	(7,742)	(8,221)
Proceeds on issue of share capital		960	2,859	3,510
Increase in bank overdrafts		21,941	20,707	27,097
Net cash from financing activities		**6,675**	**8,962**	**11,666**
Net increase/(decrease) in cash and cash equivalents		4,743	(1,469)	2,328
Cash and cash equivalents at beginning of period		17,081	14,753	14,753
Cash and cash equivalents at end of period		**21,824**	**13,284**	**17,081**

Notes to the Interim Financial Statements

1. General information

The interim financial statements for the six months ended 30 September 2006 and six months ended 30 September 2005, have been prepared on the basis of the accounting policies consistent with those set out in the Group's financial statements for the year ended 31 March 2006.

The interim financial statements are unaudited and do not constitute statutory accounts within the meaning of Section 240 of the Companies Act 1985. The statutory accounts for the year ended 31 March 2006 have been delivered to the Registrar of Companies. The auditor's opinion on those accounts was unqualified and did not contain a statement made under Section 237(2) or Section 237(3) of the Companies Act 1985. The interim financial statements for 2006 are unaudited, but have been reviewed by the auditors and their report to the Company is set out below.

These interim financial statements were approved by the Board of Directors on 27 November 2006.

2. Segmental analysis

The Group was previously involved in Commercial Outsourcing. This division represented discontinued operations in the six months ended 30 September 2005. There have been no Commercial Outsourcing operations in the six months ended 30 September 2006.

	Policy Membership 2006 £'000	Emergency Repair 2006 £'000	Consolidated 2006 £'000
Revenue			
Total revenue	73,767	139,116	**212,883**
Intra-segment sales	—	(1,551)	**(1,551)**
	73,767	137,565	**211,332**
Inter-segment sales			**(5,357)**
External sales			**205,975**

Intra-Group sales are charged at prevailing market prices.

Result			
Segment result before joint ventures and amortisation of intangible assets on acquisition	13,318	4,241	**17,559**
Share of results of joint ventures	(268)	—	**(268)**
	13,050	4,241	**17,291**
Amortisation of intangible assets on acquisition	(350)	(2,548)	**(2,898)**
Operating profit	12,700	1,693	**14,393**
Investment income			**576**
Finance costs			**(1,660)**
Profit before tax			**13,309**
Tax			**(4,156)**
Profit for the period being attributable to equity holders of the parent			**9,153**

	Policy Membership 2005 £'000	Emergency Repair 2005 £'000	Commercial Outsourcing 2005 £'000	Discontinued Operations 2005 £'000	Consolidated 2005 £'000
Revenue					
Total revenue	62,541	93,745	2,188	(2,188)	**156,286**
Intra-segment sales	—	(3,034)	—	—	**(3,034)**
	62,541	90,711	2,188	(2,188)	**153,252**
Inter-segment sales					**(3,622)**
External sales					**149,630**

Intra-Group sales are charged at prevailing market prices.

Result					
Segment result before joint ventures and amortisation of intangible assets on acquisition	10,369	2,709	—	—	**13,078**
Share of results of joint ventures	—	—	—	—	—
	10,369	2,709	—	—	**13,078**
Amortisation of intangible assets on acquisition	(97)	(1,117)			**(1,214)**
Operating profit	10,272	1,592	—	—	**11,864**
Investment income					**431**
Finance costs					**(813)**
Profit before tax					**11,482**
Tax					**(3,936)**
Profit for the period being attributable to equity holders of the parent					**7,546**

3. Taxation

The tax charge is based on the expected effective tax rate for the full year to 31 March 2007 and is calculated as, 31.0% of profit before tax and amortisation of intangible assets on acquisition (six months ended 30 September 2005: 31.0%, year ended 31 March 2006: 31.0%) and 30.0% of amortisation of intangible assets on acquisition (six months ended 30 September 2005: 0.0%, year ended 31 March 2006: 30.0%), including deferred tax.

Notes to the Interim Financial Statements

4. Earnings per share

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

The underlying adjusted earnings per share has been calculated by excluding the amortisation of intangibles on acquisition. This is considered to be a better indicator of the underlying performance of the Group.

	Six months ended 30 September 2006 £'000 (Unaudited)	Six months ended 30 September 2005 £'000 (Unaudited)	Year ended 31 March 2006 £'000 (Audited)
Profit for the period	9,153	7,546	34,449
Amortisation of intangible assets on acquisition	2,898	1,214	3,658
Tax impact arising on amortisation of intangible assets on acquisition	(869)	—	(1,097)
Adjusted profit for the period	11,182	8,760	37,010
Weighted average number of shares (000's)			
Basic	62,259	62,520	62,474
Dilutive impact of share options	2,254	1,433	1,741
Diluted	64,513	63,953	64,215

	Six months ended 30 September 2006 (Unaudited)	Six months ended 30 September 2005 (Unaudited)	Year ended 31 March 2006 (Audited)
Adjusted Basic	**18.0p**	**14.0p**	**59.2p**
Adjusted Diluted	**17.3p**	**13.7p**	**57.6p**

5. Dividends per share

An interim dividend of 7.5p per share amounting to £4,678,000 (2005: 6.1p per share amounting to £3,858,000) has been approved and will be paid on 3 January 2007 to shareholders on the register at the close of business on 8 December 2006. The ex dividend date is 6 December 2006.

A final dividend in respect of the year ended 31 March 2006 was paid in the period of 13.9p per share amounting to £8,668,000.

6. Analysis of total net debt

	30 September 2006 £'000 (Unaudited)	30 September 2005 £'000 (Unaudited)	31 March 2006 £'000 (Audited)
Bank overdraft, net of cash at bank and in hand	30,411	10,620	13,213
Loan notes	14,045	2,138	3,117
Net debt	44,456	12,758	16,330

7. Reconciliation of movements in equity

	Share capital £'000	Share premium account £'000	Merger reserve £'000	Own shares reserve £'000	Share incentive reserve £'000	Capital redemption reserve £'000	Currency translation reserve £'000	Retained earnings £'000	Total equity £'000
At 1 April 2006	8,075	29,998	70,992	(16,668)	1,626	1,200	120	105,766	201,109
Total statement of recognised income and expense	—	—	—	—	—	—	(60)	9,053	8,993
Dividends paid	—	—	—	—	—	—	—	(8,668)	(8,668)
Issue of share capital	33	927	—	—	—	—	—	—	960
Purchase of own shares	—	—	—	(7,558)	—	—	—	—	(7,558)
Deferred tax asset on share option gains	—	—	—	—	—	—	—	310	310
Share based payments	—	—	—	—	1,541	—	—	—	1,541
Share options exercised	—	—	—	—	(178)	—	—	178	—
Tax on exercised share options	—	—	—	—	—	—	—	870	870
At 30 September 2006	8,108	30,925	70,992	(24,226)	2,989	1,200	60	107,509	197,557

Notes to the Interim Financial Statements

8. Acquisitions

On 21 April 2006, the Group acquired certain of the trade and assets of Pilkington United Kingdom Limited relating to the glazing division of Pilkington Building Products. The business undertakes glazing repairs on a nationwide basis.

On 17 August 2006, the Group acquired 20,000 Home Assistance policies from FirstEnergy and simultaneously signed a marketing agreement with FirstEnergy Corp providing access to up to 3.4m households.

Subsequent to the period end, on 26 October 2006, the Group acquired 100% of the share capital of Digital Insurance Services Limited, a provider of home insurance and contents claims validation and fulfilment services.

All these transactions have been accounted for by the purchase method of accounting. There were no fair value adjustments made to the acquisition balance sheets.

The fair value of the identifiable assets and liabilities of the acquisitions were:

Acquired by:	**Homeserve Assistance Ltd**	**Home Service USA Corp**		**Homeserve Assistance Ltd**
	Pilkington £'000	**First Energy £'000**	**Total £'000**	**Digital Insurance Services Ltd £'000**
Net assets acquired:				
Property, plant and equipment	130	—	**130**	28
Inventories	66	—	**66**	99
Trade and other receivables	2,274	—	**2,274**	477
Cash and cash equivalents	—	—	**—**	1
Trade and other payables	(2,007)	—	**(2,007)**	(568)
	463	—	**463**	37
Intangible assets identified on acquisition	3,965	4,014	**7,979**	—
Goodwill	2,241	—	**2,241**	12,163
Total consideration	6,669	4,014	**10,683**	12,200
Satisfied by:				
Cash	6,500	1,890	**8,390**	3,000
Deferred consideration	—	1,541	**1,541**	9,000
Directly attributable costs	169	583	**752**	200
	6,669	4,014	**10,683**	12,200
Net cash outflow arising on acquisition:				
Cash consideration	6,669	2,473	**9,142**	3,200
Cash and cash equivalents acquired	—	—	—	(1)
	6,669	2,473	**9,142**	3,199

Intangible assets on the acquisition of Pilkington represents the director's estimate of the value of the customer relationships at acquisition. Intangible assets identified with the FirstEnergy policy acquisition and marketing agreement represent the director's estimate of the value of the acquired customer database. Goodwill represents future cross sell opportunities, efficiency savings, synergies and potential new client and customer wins from these acquisitions.

In addition to the net cash flow arising on acquisition above of £9,142,000, deferred consideration of £2,750,000 was paid relating to the prior year acquisitions of National Property Solutions Ltd and Homeserve Emergency Services Ltd (formerly Highway Emergency Services Ltd). There were further cash outflows in respect of a number of individually immaterial acquisitions amounting to £514,000 resulting in £514,000 of intangible assets.

If all the acquisitions had been completed on the first day of the financial period, there would have been no material adjustment to Group revenues and operating profit. The post acquisition operating profit from Pilkington in the six months ended 30 September 2006 was £219,000. There has been no operating profit or loss from FirstEnergy in the six months ended 30 September 2006.

An exercise to determine the intangible assets included within goodwill on Digital Insurance Services Limited is yet to be undertaken. This exercise will be completed for the annual accounts.

9. Other information

This report is being sent to shareholders and further copies will be available from the registered office at Cable Drive, Walsall, WS2 7BN.

Independent Review Report to Homeserve plc

We have been instructed by the company to review the financial information for the six months ended 30 September 2006 which comprise the group income statement, the group statement of recognised income and expense, the group balance sheet, the group cash flow statement and related notes 1 to 9. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made solely to the company in accordance with Bulletin 1999/4 issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the company those matters we are required to state to them in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report in accordance with the Listing Rules of the Financial Services Authority which require that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the preceding annual accounts except where any changes, and the reasons for them, are disclosed.

Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the six months ended 30 September 2006.

Deloitte & Touche LLP

Chartered Accountants

27 November 2006