

## HOMESERVE PLC

### INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2008

#### Highlights of the period

Continuing operations	2008	2007	Increase/ (decrease)
Revenue	£230.2m	£247.5m	(7.0%)
Operating profit *	£23.8m	£21.6m	10.2%
Profit before tax *	£21.7m	£19.4m	12.0%
Profit before tax	£14.5m	£12.9m	11.9%
Earnings per share **	24.5p	22.4p	9.5%
Earnings per share	16.2p	14.8p	9.4%

#### Financial highlights

- Operating profit\* increased by 10.2% to £23.8m
- Group operating margin\* increased by 1.7 percentage points to 10.4%
- Profit before tax\* increased by 12.0% to £21.7m
- Earnings per share\*\* increased by 9.5% to 24.5p
- Interim dividend increased by 12.0% to 10.5p per share
- Profit before tax has increased by 11.9% to £14.5m including exceptional operating costs relating to the cessation of talks with our second hub partner and the amortisation of acquisition intangibles

#### Operational highlights

- Continued progress across all three Membership divisions
- Total policies 8.4m and 4.2m customers worldwide
- UK utility branded and manufacturer warranty gross new policy sales of 765,000 (2007:619,000)
- 0.7 percentage point margin\* improvement in Emergency Services
- Continued strong performance of international businesses

\* Excluding amortisation of acquisition intangibles, joint venture taxation and £1.5m of exceptional operating costs following the cessation of talks with our second hub partner (September 2007: exceptional operating costs of £2.2m relating to the aborted acquisition of Domestic & General Group plc), see income statement and notes 3 & 4.

\*\* Excluding amortisation of acquisition intangibles and £1.5m of exceptional operating costs following the cessation of talks with our second hub partner (September 2007: exceptional operating cost of £2.2m relating to the aborted acquisition of Domestic & General Group plc), see income statement and notes 4 & 7.

Brian Whitty, Chairman, commented:

“We are pleased to report another good set of results with continued progress across our three Membership divisions. We now have 8.4m policies and 4.2m customers worldwide and a strong pipeline of potential new partners and business development opportunities.

The broader economic climate has deteriorated significantly over recent months. However, Homeserve has a strong business model that continues to generate high levels of recurring revenue and we believe that we are well placed to withstand the difficulties facing businesses in the UK and overseas markets. Furthermore, we remain excited about new growth opportunities in our UK and international membership businesses.”

**24 November 2008**

**Enquiries:**

**Homeserve plc**

Brian Whitty, Chairman  
Richard Harpin, Chief Executive  
Jonathan Simpson-Dent, Chief Financial Officer

Tel: 01922 427900  
Tel: 01922 659701  
Tel: 01922 427903

**Tulchan Group**

Andrew Honnor  
Stephen Malthouse

Tel: 020 7353 4200

## **CHAIRMAN'S STATEMENT**

We are pleased to report another good set of results with continued progress across our three Membership divisions. In the six months to September we have once again increased the number of new policies sold and retention rates have continued to move in line with recent trends in all our markets delivering 8.4m policies and 4.2m customers worldwide. In addition, our Emergency Services business has delivered a 0.7 percentage point improvement in operating margin\* during the period.

We continue to progress growth initiatives in the UK and overseas. Our UK regional pilot of 'One Contact', our pay on use service, is proceeding well and we continue to make progress on developing new affinity partnerships in our international businesses.

We have decided to reorganise our UK businesses to improve service delivery to both our policy and insurer customers. In the new structure, our UK Membership business will manage claims and service delivery in addition to sales, marketing and administration for our policy customers. Emergency Services will focus exclusively on fulfilling the needs of our insurer and commercial partners. As a consequence of these changes we anticipate reorganisation costs in the region of £3m in the fourth quarter of this financial year and a reduction in our overheads of at least £5m going in to the new financial year.

Separately, discussions have terminated with our proposed second hub partner and we have incurred exceptional operating costs in excess of their contribution amounting to £1.5m relating to the specific costs of developing the proposition for this partner.

Revenue for the six months ending September 2008 decreased by 7.0% to £230.2m (September 2007: £247.5m) as a result of the change in underwriting arrangements in UK Membership in October 2007, which led to the run-off of our reinsurance captive. Excluding the revenue attributable to our reinsurance captive, group revenue grew by 2%. These changes also result in an increase in the operating profit weighting towards the second half of the financial year. Operating profit\* for the period increased by 10.2% to £23.8m (September 2007: £21.6m).

Profit before tax\* has increased by 12.0% to £21.7m (September 2007: £19.4m). After deducting the amortisation of acquisition intangibles, exceptional operating costs and the tax arising on our joint venture in France, profit before tax is £14.5m (September 2007: £12.9m).

Earnings per share\*\* increased by 9.5% to 24.5p (September 2007: 22.4p), while basic earnings per share increased to 16.2p from 14.8p.

The Board has approved an interim dividend to be paid on 5 January 2009 to shareholders on the register at 5 December 2008 of 10.5p (September 2007: 9.4p), an increase of 12%, providing an interim dividend payment of £6.6m (September 2007: £5.9m).

## **PROSPECTS**

The broader economic climate has deteriorated significantly over the last two months. Despite this, and with the exception of retail warranties and housebuilder policies, recent trading indicates that all our Membership divisions are holding up well.

Since the start of October in UK Membership, whilst gross new policy sales continue to perform well, we have seen a slight reduction in retention rates.

As we move into the first quarter of 2009, historically our busiest period, we believe that the strength of our products, our older demographic of insurance-minded customers and strong relationships with our affinity partners will underpin our business. However, if the poor retail environment persists and the recent fall in retention is maintained through our final quarter, this would reduce full year operating profit by some £2m to £3m.

The reorganisation of the business in the UK and new initiatives such as 'One Contact' will help lay the foundation for continued growth in UK Membership in the future.

Internationally, the business continues to develop as we commence marketing activities with new affinity partners, identify suitable acquisitions and focus on our target market of insurance-minded individuals. Penetration levels remain low in our international markets and we see this as an excellent growth opportunity for the future.

In Emergency Services, we will continue to focus on delivering a high quality service for our insurance and other commercial customers, delivering further margin improvement from lower volumes.

We have a strong and attractive product that continues to generate high renewal levels, a cash generative core business, low levels of debt and loan facilities of £150m, and believe that we are well placed to withstand the difficulties facing all businesses within the UK and overseas. Furthermore, we remain excited about a number of new growth opportunities in our policy businesses. Our focus over the coming months will be on retaining and growing our customer base and continuing to position the business for growth.

## **OPERATING REVIEW**

### **UK MEMBERSHIP**

The UK Membership business has had another good performance during the period with the total number of policies increasing by 0.53m to 6.66m since September 2007. We have increased the gross new policies sold in the period including manufacturer warranties to 765,000 (September 2007: 619,000). The overall retention rate has continued to move in line with historic trends, reducing by 1 percentage point to 84% during the first half of the year.

As at 30 September 2008, policy and customer performance metrics of our UK Membership business were:

	<b>Sep-08</b>	<b>Sep-07</b>
Number of policies (000):		
- Plumbing & drains and water supply pipe	4,054	3,971
- Electrical	746	753
- Gas and gas supply pipe	762	557
- Other, including housebuilder	849	648
- Manufacturer warranties	246	199
<b>Total policies</b>	<b>6,657</b>	<b>6,128</b>
Retention rate	84%	85%
Total number of households (m)	24.4	24.4
Affinity partner households (m)	22.0	22.0
Total customers (m)	3.1	3.2
Penetration of affinity partner households	14.2%	14.3%
Policies per customer	2.13	1.91

We continue to see good take up of Combined Policies, which now represent 11% of our UK customer base. In addition, the number of product components they hold has further increased, with the average holding now at 4.6 (September 2007: 3.4). During the period we have extended our Combined Policy offering to include central heating breakdown cover.

As previously announced, we signed a new and improved arrangement with our underwriting partner last year. This new arrangement has influenced the reported results for UK Membership this period, where revenue decreased by 18.1% to £73.3m (September 2007: £89.4m) and operating profit\* decreased by 2.1% to £19.5m (September 2007: £19.9m). Excluding the impact of the changes in underwriting arrangements, revenue grew by 1%. As previously disclosed, while these new underwriting arrangements result in a decrease in reported revenue, they result in increased profitability, which is more heavily weighted towards the second half of the financial year in line with our renewals profile.

Whilst our manufacturer warranties business continues to perform well, revenue within our retail warranties business has fallen by £2.9m period on period slowing down revenue progression in UK Membership. The deteriorating economic climate is impacting our retail partners and we expect conditions in the retail sector to remain difficult for the foreseeable future.

The operating profit of UK Membership after the amortisation of acquisition intangibles is £19.2m (September 2007: £17.5m net of exceptional operating costs of £2.2m relating to the aborted acquisition of Domestic & General Group plc).

During the period we undertook an operational pilot of our new range of 'One Contact' services. We believe that 'One Contact' has the potential to access a broader group of customers, enabling them to choose from a range of 22 key trades covering 500 different types of job on a 'pay-on-use' basis. Our objective is to convert pay-on-use customers to fully insured members. Following the successful operational pilot, we are now undertaking a full regional test in the West Midlands, which was launched in October with a combination of television, radio and

newspaper advertising. Whilst the test is at an early stage, we are very pleased with the consumer response and our service delivery to date. We will be evaluating the success of this regional test towards the end of the financial year.

## CONTINENTAL EUROPE

Our French and Spanish businesses continued to make good progress during the period. The total number of policies in France has increased by 0.29m to 1.31m since September 2007. Gross new policy sales in the period have increased to 191,000 (September 2007: 161,000) and the retention rate has remained stable at 89%.

As at 30 September 2008, policy and customer performance metrics of Doméo, our French joint venture, were:

	Sep-08	Sep-07
Number of policies (000):		
- Plumbing & drains, and water supply pipe	763	618
- Electrical	131	80
- Other, including water-loss and gas products	412	317
<b>Total policies</b>	<b>1,306</b>	<b>1,015</b>
Retention rate	89%	88%
Total number of households (excl apartments) (m)	15.6	15.4
Affinity partner households (excl apartments) (m)	13.5	11.6
Total customers (m)	0.6	0.5
Penetration of affinity partner households	4.4%	4.2%
Policies per customer	2.18	2.07

Doméo has continued to grow its policy book across all product categories which, together with a more attractive underwriting rate, has resulted in a 78% increase in revenue in local currency (107% in GBP). We have secured access to a further 1 million households through the opening up of additional areas with our joint venture partner, Veolia. In addition, we have recently agreed to include our marketing literature with their utility bills for the first time, which we believe will be a cost effective way to generate new customers.

Reparalia growth continues with revenue in the first half increasing by 13% in local currency and 29% in GBP to £16m (September 2007: £12.4m, of which £8.4m was prior to acquisition). Reparalia has also started a new contract with Santander to manage their household insurance claims.

The strong growth of Reparalia and our joint venture in France together with a favourable foreign currency impact, have seen revenue in Continental Europe increase to £22.3m (September 2007: £7.1m which excludes £8.4m of pre acquisition revenue in Reparalia). The operating loss\* decreased to £0.7m (September 2007: £1.6m). The operating loss of these businesses after the amortisation of acquisition intangibles is £1.3m (September 2007: £1.5m). As in previous years we expect the European business to be profitable for the full year.

In Spain we have embarked on an extensive range of product tests with Endesa with a view to a full marketing rollout in February 2009. In addition to the marketing

agreement with Endesa, we are developing new affinity partnerships with other utilities.

We have had a good response to the launch of franchising of the Reparalia subcontract repair network in Spain following the recent success of franchising our subcontract electrical network in the UK. Existing Spanish network contractors will rebrand their operations as Reparalia with the Homeserve logo and pay Homeserve an upfront franchise fee in return for a 5 year renewable franchise agreement.

In addition to continued growth in France and Spain, we continue to develop opportunities in Belgium, Netherlands, Germany and Italy.

## UNITED STATES OF AMERICA

The United States business continued to develop well during the period. The total number of policies has increased by 0.16m to 0.45m since September 2007 with gross new policy sales of 107,000. Customer numbers have increased by 0.13m to 0.36m over the last 12 months, following the successful launch with our new partners, California Water, Louisville Water and Progress Energy. The retention rate has remained stable at 78% compared to March 2008.

As at 30 September 2008, policy and customer performance metrics were:

	Sep-08	Sep-07
Number of policies (000):		
- Plumbing & drains and water supply pipe	360	219
- Electrical	51	50
- Other	37	22
<b>Total policies</b>	<b>448</b>	<b>291</b>
Retention rate	78%	79%
Total number of households (m)	103.0	103.0
Affinity partner households (m)^	8.6	5.4
Total customers (m)	0.4	0.2
Penetration of affinity partner households	4.2%	4.2%
Policies per customer	1.24	1.28

^ restated to exclude 0.7m business / SME properties.

During the period, we commenced marketing water heater repair and replacement products to the customers of Progress Energy Inc in North and South Carolina and Florida. The results of the initial mailing campaigns have been positive, and we are exploring ways of expanding our product offering with this partner.

Revenue has doubled in local currency and GBP to £4.9m (September 2007: £2.3m) and the operating loss\* has reduced to £0.7m (September 2007: £2.0m). The operating loss of this business after the amortisation of acquisition intangibles is £1.2m (September 2007: £2.4m). We continue to expect our United States business to be profitable at the operating profit\* level from January 2009.

Subsequent to the period end, we reached agreement with National Grid Energy Services, a subsidiary of National Grid, to market our products in conjunction with the development of their energy efficiency programme across a test area of

approximately 100,000 households in Staten Island, New York. National Grid provides services to over 4 million households and this test provides a firm basis from which to build a close relationship with National Grid in the USA.

We continue to develop our pipeline of opportunities and progress potential partners to the advanced negotiation stage. We are also increasing our focus on midsize water utilities following the success of recent new partnerships with California and Louisville Water in addition to larger energy companies such as National Grid.

## **UK EMERGENCY SERVICES**

The UK Emergency Services business has increased its operating profit\* during the period despite experiencing the anticipated reduced volumes due to tougher conditions within this market and a reduction in flood related volumes compared to last year.

Revenue decreased by 10% to £142.0m (September 2007: 157.7m). Operating profit\* has increased by 8.5% to £5.8m (September 2007: £5.3m), representing a 0.7 percentage point improvement in operating margins\* to 4.1% (September 2007: 3.4%). The operating loss of these businesses after £1.5m of exceptional operating costs (in 2008) and the amortisation of acquisition intangibles is £0.2m (September 2007: operating profit £1.5m).

As reported in May, we have taken a number of actions to enhance the operating margin of our Emergency Services business, including improved supply chain management, enhanced terms with our subcontractor network and tight overhead control. These actions, together with our decision not to chase low margin jobs, have generated the year on year improvement in our operating profit\* and margin\*. We remain committed to delivering further margin improvements, in line with our targeted improvement of at least 1 percentage point for the full year.

Subsequent to the period end, discussions have terminated with our proposed second hub partner. As a result, we have incurred a £1.5m exceptional operating cost, net of their contribution, in the period relating to the specific costs of developing the proposition for this partner. We continue to believe the hub proposition provides a compelling solution to household insurers and will further develop this model once we have established a firm agreement with a new partner.

## **REORGANISATION OF OUR UK OPERATIONS**

We have decided to reorganise our UK operations to improve the way we deliver services for our policy members and Insurer partners. This involves the transfer of our claims handling operation in Preston, our network of directly employed plumbers and other parts of the network that provide services principally to our policy customers from Emergency Services to our UK Membership business.

These changes will enable one division, UK Membership, to deliver and control the end to end service for our policy customers, from customer acquisition through claims handling to job completion. The new structure will improve efficiency and control over service delivery. In addition, the UK Membership business is

responsible for all “direct to consumer” activities including the development and operation of our ‘One Contact’ pay on use proposition.

At the same time, these changes create a smaller “direct to business” Emergency Services division, focused on delivering services to our insurer and commercial partners. The new Emergency Services division comprises our Property Repair, Chem-Dry, Contents and Glazing & Locks businesses.

These changes will take effect on 1 January 2009 and will result in a reorganisation charge for the full year of approximately £3m with operational benefits being realised in the financial year ending March 2010 of at least £5m. These benefits will provide additional resources for us to pursue potential future growth opportunities.

## **FINANCIAL REVIEW**

The business has met its key financial objectives for the period, achieving double digit growth in profits, 0.7 percentage point operating margin\* progression in Emergency Services and a £19m reduction in net debt since September 2007.

The full year effective tax rate for 2009 is estimated at 29.9% (March 2008: 31.4%) and has been used in calculating our tax charge in these interim results. The principal movements in the year relate to the current year reduction in the statutory rate of corporation tax in the UK from 30% to 28%, offset by the one-off deferred tax benefit recognised in 2008 equivalent to 0.8%. However, as all of the deferred tax benefit in 2008 was recognised in the first half, this depressed the effective rate for that period to 28.5%.

Net debt at 30 September, which represents our normal peak borrowing requirement during the financial year, has reduced by £19.2m year on year to £73.0m (September 2007: £92.2m, March 2008: £43.1m). Cash generated from operations was £7.4m (September 2007: £15.5m) following a net increase in working capital required of £21.7m (September 2007: £11.1m). The increased working capital required principally reflects the run-off of our captive reinsurer, debtors' balances received in October and a strong September for our Property Repair business.

Our current level of net debt is well within our committed facilities of £150 million, which were renegotiated in the prior year and do not require renewal until December 2012.

As in previous years, we consider that profit before the amortisation of acquisition intangibles and tax on our joint venture in France, represents an important performance measure for monitoring the business. In addition, in the current and prior periods, the exceptional operating costs of £1.5m (September 2007: £2.2m) are excluded in calculating these pro-forma managerial measures.

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

<b>£million</b>	<b>Sep-08</b>	<b>Sep-07</b>
Operating profit (statutory)	16.6	15.1
Amortisation of acquisition intangibles	5.7	4.6
Exceptional operating costs – cessation of hub negotiations	1.5	-
Exceptional operating costs – aborted acquisition	-	2.2
Tax on joint ventures	-	(0.3)
<b>Operating profit*</b>	<b>23.8</b>	<b>21.6</b>
Profit before tax (statutory)	14.5	12.9
Amortisation of acquisition intangibles	5.7	4.6
Exceptional operating costs – cessation of hub negotiations	1.5	-
Exceptional operating costs – aborted acquisition	-	2.2
Tax on joint ventures	-	(0.3)
<b>Profit before tax*</b>	<b>21.7</b>	<b>19.4</b>
<b>Pence per share</b>		
Earnings per share (statutory)	16.2	14.8
Amortisation of acquisition intangibles	6.6	5.2
Exceptional operating costs – cessation of hub negotiations	1.7	-
Exceptional operating costs – aborted acquisition	-	2.4
<b>Earnings per share**</b>	<b>24.5</b>	<b>22.4</b>

## **RELATED PARTY TRANSACTIONS**

Related party transactions are disclosed in note 11 to the condensed set of financial statements. There have been no material changes in the related party transactions described in the last annual report.

## **PRINCIPAL RISKS AND UNCERTAINTIES**

The Board keeps the risks and uncertainties facing the Group under regular review and has set out those that the Board considers to have the most significant potential impact below.

### **FINANCIAL RISK**

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

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

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

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

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

## **COMMERCIAL RELATIONSHIPS**

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

## **COMPETITORS**

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

## **ACQUISITIONS**

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

**Brian Whitty**

**Chairman**

**24 November 2008**

\* Excluding amortisation of acquisition intangibles, joint venture taxation and £1.5m of exceptional operating costs following the cessation of talks with our second hub partner (September 2007: £2.2m relating to the aborted acquisition of Domestic & General Group plc), see income statement and notes 3 & 4.

\*\* Excluding amortisation of acquisition intangibles and £1.5m of exceptional operating costs following the cessation of talks with our second hub partner (September 2007: exceptional operating costs of £2.2m relating to the aborted acquisition of Domestic & General Group plc), see income statement and notes 4 & 7.

## **RESPONSIBILITY STATEMENT**

We confirm that to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS34 "Interim Financial Reporting";
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Chairman  
Brian Whitty  
24 November 2008

Chief Financial Officer  
Jonathan Simpson-Dent  
24 November 2008

Homeserve plc  
**Condensed Consolidated Income Statement**  
for the six months ended 30 September 2008

	Note	Six months ended 30 September 2008 £000 (Unaudited)	Six months ended 30 September 2007 £000 (Unaudited)	Year ended 31 March 2008 £000 (Audited)
<b>Continuing Operations</b>				
Revenue	3	230,155	247,526	554,875
Operating costs:				
Amortisation of acquisition intangibles		(5,712)	(4,621)	(10,320)
Exceptional operating costs #	4	(1,535)	(2,154)	(2,154)
Other operating costs		(206,332)	(224,944)	(466,667)
Operating costs		(213,579)	(231,719)	(479,141)
Share of results of joint ventures		-	(637)	1,755
<b>Operating profit</b>		<b>16,576</b>	<b>15,170</b>	<b>77,489</b>
Investment income		537	551	1,102
Finance costs		(2,643)	(2,788)	(6,753)
<b>Profit before tax, amortisation of acquisition intangibles, exceptional operating costs # and tax on joint ventures</b>		<b>21,717</b>	<b>19,383</b>	<b>85,303</b>
Tax on joint ventures		-	325	(991)
Exceptional operating costs #	4	(1,535)	(2,154)	(2,154)
Amortisation of acquisition intangibles		(5,712)	(4,621)	(10,320)
<b>Profit before tax</b>		<b>14,470</b>	<b>12,933</b>	<b>71,838</b>
Tax	5	(4,325)	(3,692)	(22,562)
<b>Profit for the period, being attributable to equity holders of the parent</b>		<b>10,145</b>	<b>9,241</b>	<b>49,276</b>
<b>Dividends per share</b>	6	<b>10.5p</b>	<b>9.4p</b>	<b>31.25p</b>
<b>Earnings per share</b>	7			
Basic		<b>16.2p</b>	<b>14.8p</b>	<b>79.0p</b>
Diluted		<b>15.7p</b>	<b>14.2p</b>	<b>76.0p</b>

# Exceptional operating costs relating to the cessation of discussions with our second 'hub' partner. In the prior period, exceptional operating costs related to the aborted acquisition of Domestic & General Group plc, see note 4.

**Condensed Consolidated Statement of Recognised Income and Expense**  
for the six months ended 30 September 2008

	Note	Six months ended 30 September 2008 £000 (Unaudited)	Six months ended 30 September 2007 £000 (Unaudited)	Year ended 31 March 2008 £000 (Audited)
Exchange differences on translation of foreign operations	9	762	40	46
Actuarial (losses)/gains on defined benefit pension scheme		(1,889)	551	714
Movement in interest rate swap liability		(147)	-	-
Deferred tax on items taken directly to equity		519	(607)	427
<b>Net (expense)/income recognised directly in equity</b>		<b>(755)</b>	<b>(16)</b>	<b>1,187</b>
Profit for the period		10,145	9,241	49,276
<b>Total recognised income and expense for the period attributable to equity holders of the parent</b>	9	<b>9,390</b>	<b>9,225</b>	<b>50,463</b>

**Condensed Consolidated Balance Sheet  
30 September 2008**

		30 September 2008	Restated (note 10) 30 September 2007	Restated (note 10) 31 March 2008
		£000	£000	£000
	Note	(Unaudited)	(Unaudited)	(Audited)
<b>Non-current assets</b>				
Goodwill	10	218,070	221,216	218,070
Other intangible assets		61,990	57,085	62,365
Property, plant and equipment		40,836	43,125	42,804
Interests in joint ventures		864	1,110	3,502
		321,760	322,536	326,741
<b>Current assets</b>				
Inventories		12,031	7,926	7,913
Trade and other receivables		183,797	160,096	193,915
Cash and cash equivalents		21,294	18,729	47,198
		217,122	186,751	249,026
<b>Total assets</b>		<b>538,882</b>	<b>509,287</b>	<b>575,767</b>
<b>Current liabilities</b>				
Trade and other payables		(164,953)	(158,922)	(201,235)
Current tax liabilities		(6,086)	(7,644)	(10,633)
Obligations under finance leases		-	(20)	-
Bank overdrafts and loans		(94,302)	(110,816)	(90,304)
		(265,341)	(277,402)	(302,172)
<b>Net current liabilities</b>		<b>(48,219)</b>	<b>(90,651)</b>	<b>(53,146)</b>
<b>Non-current liabilities</b>				
Other financial liabilities		(6,560)	(4,570)	(7,488)
Retirement benefit obligation		(1,832)	-	-
Obligations under finance leases		-	(46)	-
Deferred tax liabilities		(3,629)	(1,512)	(694)
		(12,021)	(6,128)	(8,182)
<b>Total liabilities</b>		<b>(277,362)</b>	<b>(283,530)</b>	<b>(310,354)</b>
<b>Net assets</b>		<b>261,520</b>	<b>225,757</b>	<b>265,413</b>
<b>Equity</b>				
Share capital		8,151	8,122	8,147
Share premium account		32,683	31,481	32,507
Merger reserve		70,992	70,992	70,992
Own shares reserve		(27,873)	(30,769)	(29,586)
Share incentive reserve		6,990	5,341	6,550
Capital redemption reserve		1,200	1,200	1,200
Hedging and currency translation reserve		725	104	110
Retained earnings		168,652	139,286	175,493
<b>Total equity</b>	<b>9</b>	<b>261,520</b>	<b>225,757</b>	<b>265,413</b>

**Condensed Consolidated Cash Flow Statement  
for the six months ended 30 September 2008**

	Six months ended 30 September 2008 £000 (Unaudited)	Six months ended 30 September 2007 £000 (Unaudited)	Year ended 31 March 2008 £000 (Audited)
<b>Operating profit</b>	<b>16,576</b>	<b>15,170</b>	<b>77,489</b>
Adjustments for:			
Depreciation of property, plant and equipment	3,425	3,110	6,391
Amortisation of acquisition intangibles	5,712	4,621	10,320
Amortisation of other intangible assets	1,869	913	2,402
Share based payments expense	1,432	2,009	4,131
Share of results of joint ventures	-	637	(1,755)
Loss/(gain) on disposal of property, plant and equipment and software licences	56	44	(52)
<b>Operating cash flows before movements in working capital</b>	<b>29,070</b>	<b>26,504</b>	<b>98,926</b>
(Increase)/decrease in inventories	(4,107)	1,530	1,592
Decrease/(increase) in receivables	12,920	5,269	(28,148)
(Decrease)/increase in payables	(30,529)	(17,850)	24,990
<b>Net movement in working capital</b>	<b>(21,716)</b>	<b>(11,051)</b>	<b>(1,566)</b>
<b>Cash generated by operations</b>	<b>7,354</b>	<b>15,453</b>	<b>97,360</b>
Income taxes paid	(8,321)	(10,130)	(24,118)
Interest paid	(2,811)	(2,594)	(6,269)
<b>Net cash (used in)/from operating activities</b>	<b>(3,778)</b>	<b>2,729</b>	<b>66,973</b>
<b>Investing activities</b>			
Interest received	537	551	1,102
Proceeds on disposal of property, plant and equipment and software licenses	78	2,102	2,585
Purchases of intangible assets	(6,244)	(4,701)	(10,104)
Purchases of property, plant and equipment	(1,470)	(7,211)	(10,063)
Net cash outflow on acquisitions	(7,394)	(41,592)	(46,096)
<b>Net cash used in investing activities</b>	<b>(14,493)</b>	<b>(50,851)</b>	<b>(62,576)</b>
<b>Financing activities</b>			
Dividends paid	(13,772)	(11,010)	(16,893)
Repayments of obligations under finance leases	-	(12)	-
Purchase of own shares	-	(7,331)	(7,331)
Issue of shares from the employee share option trust	1,780	1,427	2,523
Proceeds on issue of share capital	180	105	1,156
Increase in bank overdrafts	4,000	68,787	48,461
<b>Net cash (used in)/from financing activities</b>	<b>(7,812)</b>	<b>51,966</b>	<b>27,916</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(26,083)</b>	<b>3,844</b>	<b>32,313</b>
<b>Cash and cash equivalents at beginning of period</b>	<b>47,198</b>	<b>14,885</b>	<b>14,885</b>
Effect of foreign exchange rate changes	179	-	-
<b>Cash and cash equivalents at end of period</b>	<b>21,294</b>	<b>18,729</b>	<b>47,198</b>

## Notes to the condensed set of financial statements

### 1. General information

The information for the year ended 31 March 2008 does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors' report on those accounts was not qualified and did not contain statements under Sections 237(2) or 237(3) of the Companies Act 1985. The condensed set of financial statements for 2008 are unaudited, but have been reviewed by the auditors and their report to the Company is set out below.

This condensed set of financial statements were approved by the Board of Directors on 24 November 2008.

### 2. Accounting policies

The condensed set of financial statements has been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs) and in accordance with IAS34 'Interim Financial Reporting'. The same accounting policies, presentation and methods of computation are followed in the condensed set of financial statements as applied in the Group's latest audited financial statements. The Group's annual financial statements are prepared in accordance with IFRSs, adopted by the European Union and therefore comply with Article 4 of the EU IAS regulation.

### 3. Segmental analysis

For management purposes, the Group is currently organised into four operating divisions: UK Membership, Emergency Services, Continental Europe and United States of America. These divisions are the basis on which the Group reports its primary segment information.

The sale and renewal of policies across our Membership businesses are more heavily weighted to the second half of our financial year. In addition, claims received from householder insurers through our Emergency Services business are similarly weighted to the second half.

Segment information about these businesses is presented below:

	UK Membership 2008 £000	Emergency Services 2008 £000	Continental Europe 2008 £000	United States of America 2008 £000	Consolidated 2008 £000
<b>Revenue</b>					
Total revenue	73,251	142,007	22,312	4,940	242,510
Eliminations					(6,063)
Joint venture revenues not recognisable for statutory reporting					(6,292)
External sales					230,155

Inter-segment sales are charged at prevailing market prices.

#### Result

Segment operating profit/(loss) pre amortisation of acquisition intangibles, tax on joint ventures and exceptional operating costs	19,494	5,799	(738)	(732)	23,823
Amortisation of acquisition intangibles	(283)	(4,464)	(531)	(434)	(5,712)
Tax on joint ventures	-	-	-	-	-
Exceptional operating costs	-	(1,535)	-	-	(1,535)
<b>Operating profit/(loss)</b>	<b>19,211</b>	<b>(200)</b>	<b>(1,269)</b>	<b>(1,166)</b>	<b>16,576</b>
Investment income					537
Finance costs					(2,643)
Profit before tax					14,470
Tax					(4,325)
<b>Profit after tax</b>					<b>10,145</b>

	UK Membership 2007 £000	Emergency Services 2007 £000	Continental Europe 2007 £000	United States of America 2007 £000	Consolidated 2007 £000
<b>Revenue</b>					
Total revenue	89,420	157,720	7,094	2,305	<b>256,539</b>
Eliminations					<b>(5,969)</b>
Joint venture revenues not recognisable for statutory reporting					<b>(3,044)</b>
External sales					<b>247,526</b>

Inter-segment sales are charged at prevailing market prices.

#### Result

Segment operating profit/(loss) pre amortisation of acquisition intangibles, tax on joint ventures and exceptional operating costs	19,919	5,343	(1,600)	(2,042)	<b>21,620</b>
Amortisation of acquisition intangibles	(298)	(3,828)	(179)	(316)	<b>(4,621)</b>
Tax on joint ventures	-	-	325	-	<b>325</b>
Exceptional operating costs	(2,154)	-	-	-	<b>(2,154)</b>
Operating profit/(loss)	<b>17,467</b>	<b>1,515</b>	<b>(1,454)</b>	<b>(2,358)</b>	<b>15,170</b>
Investment income					<b>551</b>
Finance costs					<b>(2,788)</b>
Profit before tax					<b>12,933</b>
Tax					<b>(3,692)</b>
Profit after tax					<b>9,241</b>

#### 4. Exceptional operating costs

In the current period, exceptional costs relate to the cessation of discussions with our second 'hub' partner and amounted to £1,535,000. In the prior year, exceptional operating costs related to the aborted acquisition of Domestic & General Group plc and amounted to £2,154,000.

#### 5. Taxation

The tax charge is based on the expected tax rate, calculated on profit before tax for the full year to 31 March 2009 of 29.9% (six months ended 30 September 2007: 28.5%, year ended 31 March 2008: 31.4%).

	Six months ended 30 September 2008 £000 (Unaudited)	Six months ended 30 September 2007 £000 (Unaudited)	Year ended 31 March 2008 £000 (Audited)
Current tax	4,649	5,676	23,884
Deferred tax	(324)	(1,984)	(1,322)
	<b>4,325</b>	<b>3,692</b>	<b>22,562</b>

#### 6. Dividends per share

	Six months ended 30 September 2008 £000 (Unaudited)	Six months ended 30 September 2007 £000 (Unaudited)	Year ended 31 March 2008 £000 (Audited)
--	--	--	--

Amounts recognised as distributions to equity holders in the period:

Final dividend for the year ended 31 March 2008 of 21.85p (2007:17.5p) per share	13,772	11,010	11,010
Interim dividend for the year ended 31 March 2008 of 9.4p per share			5,883
			<b>16,893</b>
Proposed interim dividend for the year ended 31 March 2009 of 10.5p (2008: 9.4p) per share	6,600	5,900	
Proposed final dividend for the year ended 31 March 2008 of 21.85p per share			13,700

The proposed interim dividend of 10.5p amounting to £6,600,000 (30 September 2007: 9.4p per share amounting to £5,900,000) was approved by the Board on 24 November 2008 and has not been included as a liability as at 30 September 2008. The dividend will be payable on 5 January 2009 to shareholders on the register at the close of business on 5 December 2008. The ex dividend date is 3 December 2008.

## 7. 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 acquisition intangibles and exceptional operating costs. This is considered to be a better indicator of the performance of the Group. As profit for the period and adjusted profit for the period are stated after tax, it is not considered necessary to include in the reconciliation below the impact of the adjustment for the tax on joint ventures of £nil (six months ended 30 September 2007: credit of £325,000, year ended 31 March 2008: charge of £991,000). Diluted earnings per share includes the impact of dilutive share options in issue throughout the period.

	Six months ended 30 September 2008 £000 (Unaudited)	Six months ended 30 September 2007 £000 (Unaudited)	Year ended 31 March 2008 £000 (Audited)
Profit for the period	10,145	9,241	49,276
Amortisation of acquisition intangibles	5,712	4,621	10,320
Exceptional operating costs (note 4)	1,535	2,154	2,154
Tax impact arising on acquisition intangible amortisation and exceptional operating costs	(2,029)	(2,032)	(3,706)
Adjusted profit for the period	15,363	13,984	58,044
Weighted average number of shares (000s)			
Basic	62,756	62,522	62,412
Dilutive impact of share options	2,034	2,485	2,456
Diluted	64,790	65,007	64,868
Adjusted basic	<b>24.5p</b>	22.4p	93.0p
Adjusted diluted	<b>23.7p</b>	21.5p	89.5p

## 8. Analysis of total net debt

	30 September 2008 £000 (Unaudited)	30 September 2007 £000 (Unaudited)	31 March 2008 £000 (Audited)
Bank overdraft, net of cash at bank and in hand	72,706	91,597	42,802
Finance leases	-	66	-
Loan notes	302	490	304
Net debt	<b>73,008</b>	92,153	43,106

## 9. 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	Hedging and currency translation reserve £000	Retained earnings £000	Total equity £000
1 April 2008	8,147	32,507	70,992	(29,586)	6,550	1,200	110	175,493	265,413
Total statement of recognised income and expense	-	-	-	-	-	-	615	8,775	9,390
Dividends paid	-	-	-	-	-	-	-	(13,772)	(13,772)
Issue of share capital	4	176	-	-	-	-	-	-	180
Issue of trust shares	-	-	-	1,713	-	-	-	67	1,780
Share based payments	-	-	-	-	1,432	-	-	-	1,432
Share options exercised	-	-	-	-	(992)	-	-	992	-
Deferred tax on share options	-	-	-	-	-	-	-	(3,778)	(3,778)
Tax on exercised share options	-	-	-	-	-	-	-	875	875
<b>30 September 2008</b>	<b>8,151</b>	<b>32,683</b>	<b>70,992</b>	<b>(27,873)</b>	<b>6,990</b>	<b>1,200</b>	<b>725</b>	<b>168,652</b>	<b>261,520</b>

In the period an additional 34,000 shares were issued with a nominal value of 12½p creating share capital of £4,000 and share premium of £176,000.

## 10. Goodwill

During the period, the contingent consideration payable on the 2007 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 periods.

## 11. 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 Group and its related parties are disclosed below:

### 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 £000	Purchase of services £000	Amounts owed by related parties £000	Amounts owed to related parties £000
<b>Six months ended 30 September 2008</b>				
Harpin Limited	-	78	-	55
Pilot Services (GB) Limited	-	20	-	11
Joint ventures	430	-	4,321	-
	<b>430</b>	<b>98</b>	<b>4,321</b>	<b>66</b>
<b>Six months ended 30 September 2007</b>				
Harpin Limited	1	127	-	-
Pilot Services (GB) Limited	-	23	-	-
Joint ventures	606	-	1,710	-
	<b>607</b>	<b>150</b>	<b>1,710</b>	-
<b>Year ended 31 March 2008</b>				
Harpin Limited	2	301	-	98
Pilot Services (GB) Limited	-	59	-	23
Joint ventures	1,332	-	750	-
	<b>1,334</b>	<b>360</b>	<b>750</b>	<b>121</b>

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

Provision of services to and the purchase of services from related parties were made at arms 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.

## 12. Other information

This report is available on the Company's website [www.homeserve.com/investors](http://www.homeserve.com/investors). Hard copies will be sent to shareholders who have elected to receive them and further copies will be available on request from the registered office at Cable Drive, Walsall, WS2 7BN.

## **INDEPENDENT REVIEW REPORT TO HOMESERVE PLC**

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2008 which comprises the consolidated income statement, the consolidated statement of recognised income and expense, the consolidated balance sheet, the consolidated cash flow statement and related notes 1 to 12. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements 2410 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 half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting" as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

### **Scope of Review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity", issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte & Touche LLP  
Chartered Accountants and Registered Auditor  
24 November 2008  
Birmingham, UK

## **FORWARD LOOKING STATEMENTS AND OTHER INFORMATION**

This interim management report has been prepared solely to provide additional information to shareholders as a body to assess the Company's strategies and the potential for those strategies to succeed. This report contains certain forward looking statements, which have been made in good faith, with respect to the financial condition, results of operations, and businesses of Homeserve plc. These statements and forecasts involve risk and uncertainty because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors which could cause actual results or developments to differ materially from those expressed or implied by these forward looking statements and forecasts. The statements have been made with reference to forecast price changes, economic conditions, the current regulatory environment and the current interpretations of IFRS applicable to past, current and future periods. Nothing in this announcement should be construed as a profit forecast.