Domestic & General **Interim Report 2005**

DOMESTIC & GENERAL

Financial **Highlights** for six months ended 30 September 2004

Six months ended 30 September 2004 compared against pro-forma results to 30 September 2003.

- **Turnover:** Underlying growth of 10.0% to £112.0 million.
- **Operating profits** up 41.2% to £13.7 million.
- **Investment returns** stable at expected long-term rate after over-performance last year.
- **Total profit on ordinary activities** up 16.9% to £13.8 million.
- **Interim dividend per share** increased by 13.9% to 8.50p.
- **Board confident** of further profitable development of Group.

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Report to the **Shareholders**

Overview

The Board is pleased to report a strong set of results for the six months to 30 September 2004, building on the improvements made in recent periods. The Group changed its year-end from 30 June to 31 March earlier this year and to ensure transparency we have included pro-forma results for the equivalent six-month period to 30 September 2003, against which performance has been measured.

Total turnover grew by 2.8% to £112 million, with underlying turnover up by 10.0% after taking into account the reinsurance fund transfer of £7.2 million received in the comparative period. The underlying increase represents a steady improvement in consumer confidence in warranty products. Activity profits from the warranty business rose by 52.2% reflecting a continuing low claims ratio.

Support services showed increased turnover, in part resulting from the opening of our new mailing centre near Coventry and an improved contribution from increased utilisation of call centre facilities, both by the Group and third parties.

Investment income of £4.1 million reflects the end of the interest rate floor in November 2003, offset by higher deposits. The return on the equity portfolio marginally exceeded the expected long-term rate of return, but without the large over performance in the comparative period.

Overall, operating profits rose by 41.2% and profit before tax by 16.9%.

	Six months September 2004 £m	Pro-forma Six months September 2003 £m	Six months December 2003 £m	Nine months March 2004 £m
Turnover	112.0	109.0	112.3	174.1
Activity profit	9.7	5.5	6.5	10.1
Net investment income	4.1	6.3	4.9	6.9
Variance from long-term return on equities	(0.1)	(2.1)	(1.0)	(1.3)
Operating profit including longer term investment return	13.7	9.7	10.4	15.7
Short-term variance in investment return	0.1	2.1	1.0	1.3
Profit before tax	13.8	11.8	11.4	17.0

Dividends

The Board has declared an interim dividend of 8.50p (2003: 7.46p) per ordinary share, which will be paid on 4 February 2005. This is an increase of 13.9%.

Report to the **Shareholders**

Warranty

	Six months September 2004 £m	Pro-forma Six months September 2003 £m	Six months December 2003 £m	Nine months March 2004 £m
UK	100.0	97.4	100.1	155.8
Other EU member states	1.7	1.9	1.7	2.5
Warranty turnover	101.7	99.3	101.8	158.3
Earned income	99.3	86.8	91.2	139.0
Repair costs and claims	(44.7)	(42.3)	(41.2)	(64.5)
Incurred acquisition costs	(28.4)	(25.5)	(28.4)	(43.2)
Administrative expenses	(15.7)	(12.1)	(14.1)	(20.2)
Contribution from warranty	10.5	6.9	7.5	11.1

The Group is the leading player in the non point of sale warranty market, supporting manufacturers, retailers and financial services companies. It continues to develop its business both with new and existing partners by providing innovative products and services.

The changes arising from the Competition Commission review of the warranty market are due to be introduced in spring 2005, which should provide wider opportunities for the Group to compete with point of sale providers.

The headline turnover indicates that there has been an increase of 2.4%. However, the underlying increase is a satisfactory 10% because the comparative period to September 2003 included the benefit of £7.2 million single reinsurance premium received in respect of some new warranty schemes taken on in that period. As expected, the claims ratio continues at levels at the lower end of the expected range, although this has benefited from a favourable first half weighting.

In Europe, turnover has remained relatively static. Spain and France have been growing, whilst Germany has weakened. In aggregate, these areas continue to operate at a break-even level.

Support Services

	Six months September 2004 £m	Pro-forma Six months September 2003 £m	Six months December 2003 £m	Nine months March 2004 £m
Telephony	6.5	7.0	7.3	11.1
Mailing and fulfilment	2.3	1.1	1.5	2.3
Support services turnover	8.8	8.1	8.8	13.4
Telephony	(0.3)	(1.0)	(0.6)	(0.6)
Mailing and fulfilment	0.4	0.1	0.2	0.5
Contribution from support services	0.1	(0.9)	(0.4)	(0.1)

Support services comprise sales to third parties of telephony, mailing, fulfilment and warranty administration services. In addition, these facilities provide the essential telephony and mailing requirements of the warranty division.

The telephony business is a high quality provider of inbound and outbound services currently operating in a very competitive market. External turnover has reduced, as the business provides more support to the warranty division, but the underlying dynamics of the business are improving.

Mailing and fulfilment turnover is increasing: the mailing facility near Coventry opened in June, providing much increased capacity in its core printing, inserting and sorting functions together with the introduction of additional capabilities; a new polywrap line became operational in mid-November.

Pets

	Six months September 2004 £m	Pro-forma Six months September 2003 £m	Six months December 2003 £m	Nine months March 2004 £m
Pet division turnover	1.5	1.6	1.7	2.4
Contribution from pet division	0.2	0.2	0.3	0.3

The pet division has solid underlying performance through its affinity partnerships. A transactional website under the Petpals brand has recently been introduced and a new Pet Protect website will be following shortly.

Investment Income

	Six months September 2004 £m	Pro-forma Six months September 2003 £m	Six months December 2003 £m	Nine months March 2004 £m
Investment income	3.5	3.8	3.7	5.3
Interest payable	(0.1)	(0.1)	(0.1)	(0.2)
Gains on investments	0.7	2.6	1.3	1.8
Net investment income	4.1	6.3	4.9	6.9
Variance from longer term return	0.1	2.1	1.0	1.3

Investment income has seen the benefit of increased deposits and rates, but this has been offset by the expiry, in November 2003, of the interest rate floor, which covered £75 million of funds at 6.25% net. The equity portfolio has produced a return slightly in excess of the expected long-term return of 7%, whereas there was a significant over performance against this long-term benchmark rate in the comparative period.

Board changes

Andrew Pearce, founder of Inkfish call centres, left the Group on 30 June 2004. I would like to thank Andrew for his contribution in building this significant business.

Outlook

We expect steady growth in warranty turnover for the remainder of the financial year. The claims ratio is expected to be marginally higher over the winter months, but is anticipated to remain within our expected range.

Support services are expected to grow by further utilisation of the expanded mailing capacity, whilst the underlying dynamics of the telephony business continue to improve.

Overall, we are confident of further profitable development for the Group.

Nicholas D Rochez
Chairman
29 November 2004

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Consolidated Profit **and Loss Account**

	Note	Six months ended 30 September 2004 (Unaudited) £m	Six months ended 31 December 2003 (Unaudited) £m	Nine months ended 31 March 2004 £m
Turnover				
Warranty — UK		100.0	100.1	155.8
Warranty — other EU		1.7	1.7	2.5
Pets		1.5	1.7	2.4
Support Services		8.8	8.8	13.4
Total Turnover	1	112.0	112.3	174.1
Activity profit	2	9.7	6.5	10.1
Net investment income	3	4.1	4.9	6.9
Variance from long-term return on equities	4	(0.1)	(1.0)	(1.3)
Operating profit including longer term investment return		13.7	10.4	15.7
Short-term variance in investment return	4	0.1	1.0	1.3
Profit on ordinary activities before taxation		13.8	11.4	17.0
Tax on profit on ordinary activities		(4.1)	(3.5)	(5.2)
Profit on ordinary activities after taxation attributable to shareholders		9.7	7.9	11.8
Dividends	5	(3.1)	(2.7)	(6.3)
Retained profit for the period transferred to reserves		6.6	5.2	5.5
Earnings per share — basic	6	26.95p	21.89p	32.92p
Earnings per share — adjusted	6	27.98p	22.92p	34.47p
Diluted earnings per share	6	26.89p	21.85p	32.86p
Dividends per share	5	8.50p	7.46p	17.60p

Consolidated **Balance Sheet**

	Note	30 September 2004 (Unaudited) £m	31 December 2003 (Unaudited) £m	31 March 2004 £m
Assets				
Intangible assets	8	10.2	10.8	10.5
Investments	7	185.0	162.8	172.1
Assets held to cover linked liabilities		2.2	2.1	2.1
Reinsurers' share of technical provisions		0.2	0.8	0.3
Debtors	9	82.5	80.4	84.2
Other assets	10	10.0	8.5	9.3
Prepayments and accrued income	11	59.9	56.5	58.1
Total Assets		350.0	321.9	336.6
Liabilities				
Capital and reserves				
Called up share capital	13	3.6	3.6	3.6
Share premium account	13	8.6	8.5	8.6
Profit and loss account		74.9	68.0	68.3
Shareholders' funds attributable to equity interests		87.1	80.1	80.5
Technical provisions	14	137.9	135.9	139.4
Provisions for other risks and charges		0.2	0.2	0.3
Creditors: amounts falling due within one year	15	40.1	32.3	38.4
Accruals and deferred income	16	84.7	73.4	78.0
Total Liabilities		350.0	321.9	336.6

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Consolidated **Cash Flow Statement**

	Six months ended 30 September 2004 (Unaudited) £m	Six months ended 31 December 2003 (Unaudited) £m	Nine months ended 31 March 2004 £m
Net cash inflow from operating activities	24.0	19.1	30.3
Returns on investment and servicing of finance	(0.1)	(0.1)	(0.2)
Taxation	(3.2)	(2.1)	(3.7)
Capital expenditure	(2.3)	(0.6)	(0.9)
Equity dividends paid	(6.3)	(5.1)	(5.1)
Financing	–	0.2	0.3
Increase in cash in the period	12.1	11.4	20.7
Cash flows were invested as follows:			
Cash holdings	0.2	(0.4)	0.7
Deposits with credit institutions	3.6	8.2	14.8
Freehold land and buildings	2.4	1.3	2.4
Cash liquidity funds	4.9	0.2	0.3
Personal loans	1.3	0.1	0.6
Amounts owed to credit institutions	(0.3)	2.0	1.9
Net investment of cash flows	12.1	11.4	20.7

1. Turnover

	Six months ended 30 September 2004 (Unaudited) £m	Six months ended 31 December 2003 (Unaudited) £m	Nine months ended 31 March 2004 £m
Turnover			
Warranty — UK	100.0	100.1	155.8
Warranty — Other EU	1.7	1.7	2.5
Warranty income	101.7	101.8	158.3
Pets income	1.5	1.7	2.4
Support Services income	8.8	8.8	13.4
Total Turnover	112.0	112.3	174.1

2. Operating profit before investment income

	£m	£m	£m
Warranty:			
Earned income	99.3	91.2	139.0
Repair costs and claims	(44.7)	(41.2)	(64.5)
Incurred acquisition costs	(28.4)	(28.4)	(43.2)
Administrative expenses	(15.7)	(14.1)	(20.2)
Contribution from warranty	10.5	7.5	11.1
Pets:			
Earned income	0.1	1.3	1.1
Claims	(0.2)	(0.9)	(1.1)
Commission income	1.5	1.2	2.0
Incurred acquisition costs	—	(0.2)	—
Administrative expenses	(1.2)	(1.1)	(1.7)
Contribution from pet division	0.2	0.3	0.3
Support services:			
Income	8.8	8.8	13.4
Direct costs	(6.3)	(6.6)	(9.7)
Administrative expenses	(2.4)	(2.6)	(3.8)
Contribution from support services	0.1	(0.4)	(0.1)

Notes to the Unaudited **Financial Statements**

2. Operating profit before investment income continued

	Six months ended 30 September 2004 (Unaudited) £m	Six months ended 31 December 2003 (Unaudited) £m	Nine months ended 31 March 2004 £m
Total contribution	10.8	7.4	11.3
Other charges	(0.8)	(0.6)	(0.6)
Amortisation of goodwill	(0.3)	(0.3)	(0.6)
Profit before investment income and tax	9.7	6.5	10.1

3. Net investment income

	Six months ended 30 September 2004 (Unaudited) £m	Six months ended 31 December 2003 (Unaudited) £m	Nine months ended 31 March 2004 £m
Investment income	3.5	3.7	5.3
Interest payable	(0.1)	(0.1)	(0.2)
Gains on investments	0.7	1.3	1.8
	4.1	4.9	6.9

4. Investment return on equities

Taking a long-term view, equity investments are expected to produce total investment income and gains equal to the market long-term rate of return, which is kept under review and is currently expected to be 7% per annum.

The expected annual return, using the long-term rate, is calculated on the market value of equity investments at the beginning of the year, adjusted for changes in the level of investment during the period. The expected return is included in operating profits and the variance from this expected annual return is deemed to be a short-term variation, which is treated as an adjustment between operating profits and profit before tax.

	Six months ended 30 September 2004 (Unaudited) £m	Six months ended 31 December 2003 (Unaudited) £m	Nine months ended 31 March 2004 £m
Expected longer term return	0.5	0.5	0.7
Actual investment return	0.6	1.5	2.0
Short-term variance in investment return	0.1	1.0	1.3

5. Dividends

The Board has declared an interim dividend of 8.50p per ordinary 10p share payable on 4 February 2005 to shareholders who are on the Register at the close of business on 7 January 2005.

6. Earnings per share

Earnings per share of 26.95p and 21.89p for the six months to 30 September 2004 and 31 December 2003 respectively have been calculated on the basis of 35,936,667 and 35,867,414 weighted average number of shares in issue. Diluted earnings per share have been calculated in accordance with FRS 14 and allow for the exercise of outstanding share options and the average share price during the period. Adjusted earnings per share have been based on profit attributable to shareholders but adding back goodwill amortisation.

7. Investments

	30 September 2004 (Unaudited) £m	31 December 2003 (Unaudited) £m	31 March 2004 £m
Freehold land and buildings	10.4	6.9	8.0
Shares, securities and mortgages	16.9	16.0	16.4
Loans	16.1	14.3	14.7
Cash liquidity funds	21.6	16.6	16.7
Deposits with credit institutions	120.0	109.0	116.3
	185.0	162.8	172.1

8. Intangible assets — Goodwill

	Cost £m	Amortisation £m	Net £m
At 1 April 2004	12.6	(2.1)	10.5
Charge for period	—	(0.3)	(0.3)
At 30 September 2004	12.6	(2.4)	10.2

9. Debtors

	30 September 2004 (Unaudited) £m	31 December 2003 (Unaudited) £m	31 March 2004 £m
Debtors arising from direct insurance operations	35.1	37.1	39.5
Debtors arising from service plans	35.5	30.4	32.7
Other	11.9	12.9	12.0
	82.5	80.4	84.2

10. Other assets

	30 September 2004 (Unaudited) £m	31 December 2003 (Unaudited) £m	31 March 2004 £m
Tangible assets	8.1	7.9	7.6
Cash at bank and in hand	1.9	0.6	1.7
	10.0	8.5	9.3

11. Prepayments and accrued income

	30 September 2004 (Unaudited) £m	31 December 2003 (Unaudited) £m	31 March 2004 £m
Deferred acquisition costs	56.0	53.9	55.0
Other prepayments and accrued income	3.9	2.6	3.1
	59.9	56.5	58.1

12. Deferred acquisition costs

	Commission 30 September 2004 (Unaudited) £m	Other expenses 30 September 2004 (Unaudited) £m	Total 30 September 2004 (Unaudited) £m
At 1 April 2004	19.8	35.2	55.0
Arising in period	10.3	19.1	29.4
Charge for period	(9.6)	(18.8)	(28.4)
At 30 September 2004	20.5	35.5	56.0

13. Share capital and share premium

	Share capital £m	Share premium £m
At 1 April 2004	3.6	8.6
Arising in period	—	—
At 30 September 2004	3.6	8.6

14. Technical provisions

	30 September 2004 (Unaudited) £m	31 December 2003 (Unaudited) £m	31 March 2004 £m
Unearned premiums	126.1	125.1	128.7
Claims outstanding	7.4	6.7	6.2
Long-term business fund	2.2	2.0	2.4
Linked liabilities	2.2	2.1	2.1
	137.9	135.9	139.4

15. Creditors

	30 September 2004 (Unaudited) £m	31 December 2003 (Unaudited) £m	31 March 2004 £m
Insurance creditors	8.2	7.6	9.5
Due to credit institutions	4.4	4.1	4.1
Dividends	3.1	2.7	6.3
Taxation and social security	8.5	5.7	5.4
Other	15.9	12.2	13.1
	40.1	32.3	38.4

16. Accruals and deferred income

	30 September 2004 (Unaudited) £m	31 December 2003 (Unaudited) £m	31 March 2004 £m
Accruals	9.6	8.0	8.0
Deferred income	75.1	65.4	70.0
	84.7	73.4	78.0

17. The results for the six months ended 30 September 2004 and 31 December 2003 do not constitute statutory accounts, but have been prepared on the basis of the accounting policies set out in the Group's Annual Report for the period ended 31 March 2004.

The figures for the nine months ended 31 March 2004 have been extracted from the statutory accounts for that period, on which the independent auditors gave an unqualified audit opinion, and which have been delivered to the Registrar of Companies.

18. A copy of this statement is being sent to all shareholders. Further copies are available from Domestic & General Group PLC, Swan Court, Mansel Road, Wimbledon, London, SW19 4AA.

Financial **Calendar 2005**

Dividends

Interim 2004/2005	— Ex dividend	5 January 2005
	— Record date	7 January 2005
	— Payment	4 February 2005
Final 2004/2005	— Ex dividend	20 July 2005
	— Record date	22 July 2005
	— Payment	19 August 2005

Announcements

Preliminary results for the year ended 31 March 2005	2 June 2005
Annual General Meeting	4 August 2005

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