

Domestic & General **Interim Report 2004**





Financial Highlights for six months ended 31 December 2003

- **Turnover** up 4.6% to £112.3 million.

- **Operating profits** up 42.5% to £10.4 million.

- **Investment return** reflects lower interest rates on deposits and strong equity performance.

- **Total profit on ordinary activities** up 137.5% to £11.4 million.

- **Interim dividend per share** increased by 10.0% to 7.46p.

- **Board confident** about profitable development of Group.

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Report to the Shareholders

Overview

After the significant increase in turnover seen last year, growth has slowed this year to 4.6% at £112.3 million. Operating profits grew strongly by 42.5% to £10.4 million reflecting the flow through into earned income of last year's growth and, additionally, the increased weighting of renewals. Overall profits have increased by 137.5% to £11.4 million, boosted by the much-improved performance of our equity investments.

Our support services activities, primarily our Infish call centres business, continued to experience a difficult trading market, resulting in a small divisional loss of £0.4 million. As a Group, we derive substantial benefit for our core warranty business from the facilities available from support services and will continue to develop these advantages into the future.

The Competition Commission inquiry into extended warranties reported in December 2003. This focused on the sale of warranties at the point of sale, which accounts for less than 3% of our income. The remedies, which are likely to be implemented in autumn 2004, will undoubtedly affect the overall market, but we are confident that we will be able to deal satisfactorily with these changes.

Dividends

The Board has declared an interim dividend of 7.46p (2002: 6.78p) per ordinary share, which will be paid on 7 May 2004.

Warranty

	Six months December 2003	Six months December 2002	Year June 2003
	£m	£m	£m
UK	100.1	93.4	193.0
Other EU member states	1.7	2.7	5.1
Warranty turnover	101.8	96.1	198.1
Earned income	91.2	72.9	158.4
Repair costs and claims	(41.2)	(38.4)	(83.1)
Incurred acquisition costs	(28.4)	(19.4)	(43.8)
Administrative expenses	(14.1)	(11.5)	(24.2)
Contribution from warranty	7.5	3.6	7.3

Following last year's exceptionally high growth, UK warranty turnover growth has slowed to 7.2%, whereas earned income has increased by 25.1%. As expected, the weighting of renewals in earned income has increased, which, coupled with lower than expected claims frequency, has improved the claims ratio.

In Europe, during the half year, turnover in Germany has weakened whereas Spain has strengthened. In aggregate, the European operations are close to break-even.

The Competition Commission published their proposals, in December 2003, arising from their inquiry into the extended warranty market. Their proposals are aimed at the point of sale market, which accounts for less than 3% of our income, and encompass: disclosure by retailers of the extended warranty prices; disclosure of statutory and cancellation rights; mandatory 45 day cancellation period; pro rata refunds on cancellation; offers open for 30 days



Report to the Shareholders

from appliance purchase; a further review by the Office of Fair Trading in two years. We expect these proposals to be implemented by Statutory Instrument in the autumn of 2004. We are confident that we will be able to implement the changes necessary to support our point of sale business and to deal with any impacts, which results in changes in the wider warranty market.

Support Services

	Six months December 2003	Six months December 2002	Year June 2003
	£m	£m	£m
Telephony	7.3	8.3	15.8
Other services	1.5	1.3	2.8
Support services turnover	8.8	9.6	18.6
Telephony	(0.6)	0.3	(0.4)
Other services	0.2	0.1	0.3
Contribution from support services	(0.4)	0.4	(0.1)

Support services comprise telephony, mailing, fulfilment and warranty administration services to trade partners both within and outside our traditional electrical and heating industries. Third party turnover fell by 8% as the division provided more support to the base warranty division.

The market for telephony services remains weak and highly competitive. The strategic value of in-house capability is being developed for our major warranty accounts and will become even more important as changes in the warranty market occur.

Mailing services have been constrained by lack of capacity. We are investing approximately £5 million in a new facility of over 55,000 square feet, near our existing operation in the Midlands, which is due to become operational in the summer.

Pets

	Six months December 2003	Six months December 2002	Year June 2003
	£m	£m	£m
Gross premiums	0.5	1.0	2.0
Commissions	1.2	0.7	2.2
Pet division turnover	1.7	1.7	4.2
Contribution from pet division	0.3	(0.2)	0.3

The pet division has successfully integrated its business streams into a single administration unit and is in the process of moving all underwriting to third parties. We are looking at a number of avenues to grow this area profitably in the future.

Investment Income

	Six months December 2003	Six months December 2002	Year June 2003
	£m	£m	£m
Investment income	3.7	3.8	7.8
Interest payable	(0.1)	(0.2)	(0.3)
Gains/(losses) on investments	1.3	(2.0)	(1.0)
Net investment income	4.9	1.6	6.5
Variance from longer term return	1.0	(2.5)	(1.6)

As previously highlighted, the investment return has reduced following expiry, in November 2003, of the interest rate protection at 6.25%, which covered £75 million of funds. Rising stock markets have had a positive impact on the equity portfolio and there has been a favourable variance of £1.0 million from the expected longer term rate of return.

Change of year end

The Board has decided to change the Group's accounting reference date to 31 March and therefore, subject to regulatory approval, will next report performance for the nine months to 31 March 2004. It is considered that this revised year end will better facilitate financial reporting by closer alignment with commercial arrangements and will also avoid the conflict Christmas and Summer holiday periods.

Board changes

As previously announced, Tim Scrivener resigned as Managing Director with effect from 31 December 2003 and John Pearmund was appointed as Chief Executive on 2 January 2004.

Glyn Smith, Finance Director of the Portman Building Society, is to be appointed as a non-executive director on 1 March 2004.

Outlook

We expect to maintain steady growth in warranty turnover for the rest of the period, in line with the last few months. There continues to be background negative headline publicity on warranties, directed principally at the point of sale market, which also impacts on our marketplace. The claims ratio is also expected to show a continued improvement compared with last year, but at a higher ratio than seen in the first six months.

On support services, we will continue to develop the strategic value of our telephony expertise, directed primarily to support our warranty business. The inauguration of our new mailing facility, in the summer, will provide further opportunities to provide additional services to our third party customers.

Overall, we remain confident about the prospects for the profitable development of our Group.



Nicholas D Rochez
Chairman

26 February 2004



Consolidated Profit and Loss Account

		Six months ended 31 December 2003 (Unaudited) £m	Six months ended 31 December 2002 (Unaudited) £m	Year ended 30 June 2003 £m
	Note			
Turnover				
Warranty — UK		100.1	93.4	193.0
Warranty — other EU		1.7	2.7	5.1
Pets		1.7	1.7	4.2
Support Services		8.8	9.6	18.6
Total Turnover	1	112.3	107.4	220.9
Activity profit	2	6.5	3.2	6.1
Net investment income	3	4.9	1.6	6.5
Variance from long-term return on equities	4	(1.0)	2.5	1.6
Operating profit including longer term investment return		10.4	7.3	14.2
Short-term variance in investment return	4	1.0	(2.5)	(1.6)
Profit on ordinary activities before taxation		11.4	4.8	12.6
Tax on profit on ordinary activities		(3.5)	(1.6)	(3.8)
Profit on ordinary activities after taxation attributable to shareholders		7.9	3.2	8.8
Dividends	5	(2.7)	(2.4)	(7.5)
Retained profit for the period transferred to reserves		5.2	0.8	1.3
Earnings per share — basic	6	21.89p	8.80p	24.57p
Earnings per share — adjusted	6	22.92p	9.76p	26.58p
Diluted earnings per share	6	21.85p	8.61p	24.52p
Dividends per share	5	7.46p	6.78p	20.94p

Consolidated Balance Sheet

		31 December 2003 (Unaudited) £m	31 December 2002 (Unaudited) £m	30 June 2003 £m
	Note			
Assets				
Intangible assets	8	10.8	11.4	11.1
Investments	7	162.8	140.1	151.4
Assets held to cover linked liabilities		2.1	2.0	1.9
Reinsurers' share of technical provisions		0.8	1.3	1.1
Debtors	9	80.4	72.0	76.4
Other assets	10	8.5	11.8	10.2
Prepayments and accrued income	11	56.5	50.8	55.3
Total Assets		321.9	289.4	307.4
Liabilities				
Capital and reserves				
Called up share capital	13	3.6	3.6	3.6
Share premium account	13	8.5	8.3	8.3
Profit and loss account		68.0	62.3	62.8
Shareholders' funds attributable to equity interests		80.1	74.2	74.7
Technical provisions	14	135.9	126.4	132.9
Fund for future appropriations		—	—	0.2
Provisions for other risks and charges		0.2	(0.1)	0.4
Creditors: amounts falling due within one year	15	32.3	37.7	36.1
Accruals and deferred income	16	73.4	51.1	63.0
Creditors: amounts falling due after more than one year		—	0.1	0.1
Total Liabilities		321.9	289.4	307.4



Consolidated Cash Flow Statement

	Six months ended 31 December 2003 (Unaudited) £m	Six months ended 31 December 2002 (Unaudited) £m	Year ended 30 June 2003 £m
Net cash inflow from operating activities	19.1	19.0	33.3
Returns on investment and servicing of finance	(0.1)	(0.2)	(0.3)
Taxation	(2.1)	(0.9)	(3.2)
Capital expenditure	(0.6)	(2.5)	(3.7)
Acquisitions	—	(4.1)	(4.2)
Equity dividends paid	(5.1)	(4.6)	(7.0)
Financing	0.2	0.6	0.5
Increase in cash in the period	11.4	7.3	15.4
Cash flows were invested as follows:			
Cash holdings	(0.4)	1.5	(0.2)
Deposits with credit institutions	8.2	3.7	13.7
Investment properties	1.3	—	—
Gilts and fixed interest securities	—	—	—
Cash liquidity funds	0.2	0.3	0.8
Personal loans	0.1	0.6	(0.1)
Amounts owed to credit institutions	2.0	1.2	1.2
Net investment of cash flows	11.4	7.3	15.4

Notes to the Unaudited Financial Statements

1. Turnover

	Six months ended 31 December 2003 (Unaudited) £m	Six months ended 31 December 2002 (Unaudited) £m	Year ended 30 June 2003 £m
Turnover			
Warranty — UK	100.1	93.4	193.0
Warranty — Other EU	1.7	2.7	5.1
Warranty income	101.8	96.1	198.1
Pets income	1.7	1.7	4.2
Support Services income	8.8	9.6	18.6
Total Turnover	112.3	107.4	220.9

2. Operating profit before investment income

	£m	£m	£m
Warranty:			
Earned income	91.2	72.9	158.4
Repair costs and claims	(41.2)	(38.4)	(83.1)
Incurred acquisition costs	(28.4)	(19.4)	(43.8)
Administrative expenses	(14.1)	(11.5)	(24.2)
Contribution from warranty	7.5	3.6	7.3
Pets:			
Earned income	1.3	0.8	1.9
Claims	(0.9)	(0.7)	(1.7)
Commission income	1.2	0.7	2.2
Incurred acquisition costs	(0.2)	(0.3)	(0.3)
Administrative expenses	(1.1)	(0.7)	(1.8)
Contribution from pet division	0.3	(0.2)	0.3
Support services:			
Income	8.8	9.6	18.6
Direct costs	(6.6)	(5.7)	(11.3)
Administrative expenses	(2.6)	(3.5)	(7.4)
Contribution from support services	(0.4)	0.4	(0.1)

Notes to the Unaudited Financial Statements

2. Operating profit before investment income continued

	Six months ended 31 December 2003 (Unaudited) £m	Six months ended 31 December 2002 (Unaudited) £m	Year ended 30 June 2003 £m
Total contribution	7.4	3.8	7.5
Other charges	(0.6)	(0.3)	(0.7)
Amortisation of goodwill	(0.3)	(0.3)	(0.7)
Profit before investment income and tax	6.5	3.2	6.1

3. Net investment income

	Six months ended 31 December 2003 (Unaudited) £m	Six months ended 31 December 2002 (Unaudited) £m	Year ended 30 June 2003 £m
Investment income	3.7	3.8	7.8
Interest payable	(0.1)	(0.2)	(0.3)
Gains/(losses) on investments	1.3	(2.0)	(1.0)
	4.9	1.6	6.5

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 year. The expected annual return is included in operating profits for the year 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 31 December 2003 (Unaudited) £m	Six months ended 31 December 2002 (Unaudited) £m	Year ended 30 June 2003 £m
Expected longer term return	0.5	0.5	0.9
Actual investment return	1.5	(2.0)	(0.7)
Short-term variance in investment return	1.0	(2.5)	(1.6)

5. Dividends

The Board has declared an interim dividend of 7.46p per ordinary 10p share payable on 7 May 2004 to shareholders who are on the Register at the close of business on 2 April 2004.

6. Earnings per share

Earnings per share of 21.89p and 8.80p for the six months to 31 December 2003 and 2002 respectively have been calculated on the basis of 35,867,414 and 35,839,553 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

	31 December 2003 (Unaudited) £m	31 December 2002 (Unaudited) £m	30 June 2003 £m
Freehold land and buildings	6.9	5.6	5.6
Shares, securities and mortgages	16.0	12.0	14.5
Loans	14.3	14.7	14.1
Cash liquidity funds	16.6	16.0	16.4
Deposits with credit institutions	109.0	91.8	100.8
	<u>162.8</u>	<u>140.1</u>	<u>151.4</u>

8. Goodwill

	Cost £m	Amortisation £m	Net £m
At 1 July 2003	12.6	(1.5)	11.1
Charge for period	—	(0.3)	(0.3)
At 31 December 2003	<u>12.6</u>	<u>(1.8)</u>	<u>10.8</u>



Notes to the Unaudited Financial Statements

9. Debtors

	31 December 2003 (Unaudited) £m	31 December 2002 (Unaudited) £m	30 June 2003 £m
Debtors arising from direct insurance operations	37.1	32.9	35.6
Debtors arising from service plans	30.4	25.1	25.5
Other	12.9	14.0	15.3
	<u>80.4</u>	<u>72.0</u>	<u>76.4</u>

10. Other assets

	31 December 2003 (Unaudited) £m	31 December 2002 (Unaudited) £m	30 June 2003 £m
Tangible assets	7.9	9.7	9.2
Cash at bank and in hand	0.6	2.1	1.0
	<u>8.5</u>	<u>11.8</u>	<u>10.2</u>

11. Prepayments and accrued income

	31 December 2003 (Unaudited) £m	31 December 2002 (Unaudited) £m	30 June 2003 £m
Deferred acquisition costs	53.9	47.0	52.1
Other prepayments and accrued income	2.6	3.8	3.2
	<u>56.5</u>	<u>50.8</u>	<u>55.3</u>

12. Deferred acquisition costs

	Commission 31 December 2003 (Unaudited) £m	Other expenses 31 December 2003 (Unaudited) £m	Total 31 December 2003 (Unaudited) £m
At 1 July 2003	19.8	32.3	52.1
Arising in period	10.4	20.0	30.4
Charge for period	(10.7)	(17.9)	(28.6)
At 31 December 2003	19.5	34.4	53.9

13. Share capital and share premium

	Share capital £m	Share premium £m
At 1 July 2003	3.6	8.3
Arising in period	—	0.2
At 31 December 2003	3.6	8.5

14. Technical provisions

	31 December 2003 (Unaudited) £m	31 December 2002 (Unaudited) £m	30 June 2003 £m
Unearned premiums	125.1	116.6	124.1
Claims outstanding	6.7	5.9	5.0
Long-term business fund	2.0	1.9	1.9
Linked liabilities	2.1	2.0	1.9
	135.9	126.4	132.9



Notes to the Unaudited Financial Statements

15. Creditors

	31 December 2003 (Unaudited) £m	31 December 2002 (Unaudited) £m	30 June 2003 £m
Insurance creditors	7.6	8.3	8.1
Due to credit institutions	4.1	6.1	5.9
Dividends	2.7	2.4	5.1
Taxation and social security	5.7	5.1	4.2
Loan notes	—	3.5	0.6
Other	12.2	12.3	12.2
	32.3	37.7	36.1

The loan notes were issued as part of the consideration in connection with the acquisition of Inkfish and have now been fully repaid.

16. Accruals and deferred income

	31 December 2003 (Unaudited) £m	31 December 2002 (Unaudited) £m	30 June 2003 £m
Accruals	8.0	4.4	6.2
Deferred income	65.4	46.7	56.8
	73.4	51.1	63.0

17. The results for the six months ended 31 December 2003 and 2002 and the results for the year ended 30 June 2003 do not constitute statutory accounts. The statutory accounts for the year ended 30 June 2003 received an unqualified auditors' report and 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 2004

Dividends

Interim 2003/2004	— Ex dividend	31 March 2004
	— Record date	2 April 2004
	— Payment	7 May 2004

Final 2003/2004	— Ex dividend	21 July 2004
	— Record date	23 July 2004
	— Payment	20 August 2004

Announcements

Preliminary results for the period ended 31 March 2004	1 June 2004
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Annual General Meeting

5 August 2004



DOMESTIC & GENERAL

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