



DOMESTIC & GENERAL

**Interim Report  
2001**

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## *Highlights*

six months ended 31 December 2000

- ***Turnover*** up 5.4% to £56.8 million.

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- ***Operating profit*** before investment income and tax up 24.8% to £4.8 million.

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- ***Investment return tempered by poor equity performance***

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- ***Interim dividend per share*** increased 16.7% to 5.60p.

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- ***Mailing, renewal and inbound telesales programmes performing well***

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- ***Customer satisfaction levels remain extremely high.***

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- ***Accelerating turnover growth and reducing losses in Europe.***

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- ***Internet usage developing on low cost basis.***

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- ***Further progress expected in UK, Europe and Support Services.***

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## *Chairman's Statement*

### **Overview**

This half year has produced strong operating results and we have made good progress in Europe. The significant improvement in trading results has been tempered by lower investment returns reflecting the poor performance of the equity market.

### **Dividends**

The Board has declared an interim dividend of 5.60p (1999: 4.80p) per ordinary share, which will be paid on 10 May 2001 to all shareholders on the Register at the close of business on 6 April 2001

### **Trading activities**

We have seen continued progress from our core UK activities. Our mailing, renewal and inbound telesales programmes are performing well in a tough marketplace that still witnesses eroding appliance prices. Over recent years the market has moved away from insured point of sale schemes. We have developed an alternative product which should enable us to improve our market share.

Our ongoing investment in our repair management and claims teams continues to show benefit in the stable loss ratio we have seen in the first half. We are well aware that our product stands or falls by the quality and cost of the repair service we offer to our customers and I am pleased that our overall customer

satisfaction levels remain extremely high, particularly given the ever more demanding expectations for a high quality service.

We continue to recognise the importance of keeping expenses under control, but we are not blinkered to opportunities which require strategic spending for future business success.

Our internet strategy is to develop further our transactional web sites which promote repair services and policy sales whilst reducing our administrative cost base. The domgen.com web site for warranty applications and quotations is growing strongly, although it still remains a small proportion of our overall business. flyingtoolbox.com, an internet repair signposting service launched in July 2000, has not grown as rapidly as we would have liked and we are now widening its appeal through telephone access, as well as stepping up our database marketing initiatives. However, usage is growing, the results generated by policy sales to date are encouraging and we continue to receive positive coverage in the consumer press.

### **Europe**

The strong growth experienced last year is continuing and gross written premiums have increased to £1.7 million (1999: £0.5 million). Our major presence is in Germany where premium income has increased to £1.56 million. We are generating positive underwriting results and have a stable expense base. Progress in

Spain and France has been slower, but planned expense reductions have been achieved.

Overall in Europe, turnover has increased by 243% and losses have reduced by 34%. I am delighted to report such positive trends and I anticipate reporting further progress.

### Support Services

The outsourcing services we offer to the trade are proving increasingly popular and we are now dealing with a wide variety of clients across a broad range of services. The results for the two periods are not directly comparable, but on a like for like basis, turnover has increased by 23%. Support Services have yielded a net margin of 15%. We expect further progress in this sector.

### Investment Return

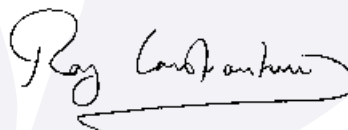
The investment portfolio comprises cash deposits, personal loans, equities and group occupied properties. The investment return on cash deposits is underpinned by an interest rate floor covering £75 million of the portfolio until November 2003 which will provide a minimum net return of approximately 6.25%. The equity portfolio, which amounts to approximately 10% of net investments, is a long-term investment where short-term changes are reflected within investment return. Using a long term rate of return from equities, which is normal market practice, of 8%, our results would be presented as follows:

	<b>Six months ended 31 December 2000 £ m</b>	<b>Six months ended 31 December 1999 £ m</b>	<b>Year ended 30 June 2000 £ m</b>
Activity profit	4.8	3.8	8.9
Investment return*	4.1	3.8	8.2
Operating profit	8.9	7.6	17.1
Variance from long-term rate	(0.6)	1.2	0.8
Profit before tax	8.3	8.8	17.9

\*using 8% long term rate for equities

### Outlook

I expect continued development in the UK, Europe and Support Services and I believe that the Group will make further progress over the coming months.



**The Hon. Roy Constantine  
Chairman**

28 February 2001

## Consolidated Profit and Loss Account

		<i>Six months ended 31 December 2000 (Unaudited) £'000</i>	<i>Six months ended 31 December 1999 (Unaudited) £'000</i>	<i>Year ended 30 June 2000 £'000</i>
Turnover	1	56,814	53,903	109,228
Operating profit	2	4,756	3,811	8,879
Net investment income	4	3,546	5,013	9,040
Profit on ordinary activities before taxation	2	8,302	8,824	17,919
Tax on profit on ordinary activities		(2,534)	(2,721)	(5,422)
Profit on ordinary activities after taxation attributable to shareholders		5,768	6,103	12,497
Dividends	5	(1,963)	(1,660)	(5,189)
Retained profit for the period transferred to reserves		3,805	4,443	7,308
Earnings per share	6	16.63p	17.67p	36.17p
Diluted earnings per share	6	16.54p	17.57p	35.96p
Dividends per share	5	5.60p	4.80p	15.00p

## Consolidated Balance Sheet

		31 December 2000 (Unaudited) £'000	31 December 1999 (Unaudited) £'000	30 June 2000 £'000
	<b>Note</b>			
<b>ASSETS</b>				
Intangible assets		730	826	772
Investments	7	124,288	123,369	122,984
Assets held to cover linked liabilities		3,024	2,962	3,084
Reinsurers' share of technical provisions	8	2,059	2,538	2,245
Debtors	9	25,658	20,240	23,145
Other assets	10	4,614	4,678	4,855
Prepayments and accrued income	11	31,479	29,421	30,079
<b>Total Assets</b>		<b>191,852</b>	<b>184,034</b>	<b>187,164</b>
<b>LIABILITIES</b>				
<b>Capital and reserves</b>				
Called up share capital	13	3,476	3,455	3,459
Share premium account	13	1,779	1,173	1,290
Profit and loss account		55,050	48,391	51,254
Shareholders' funds attributable to equity interests		60,305	53,019	56,003
<b>Technical provisions</b>	14	<b>113,422</b>	<b>108,682</b>	<b>108,552</b>
<b>Fund for future appropriations</b>		<b>144</b>	<b>113</b>	<b>144</b>
<b>Provisions for other risks and charges</b>		<b>91</b>	<b>(416)</b>	<b>110</b>
<b>Creditors</b>	16	<b>16,281</b>	<b>21,318</b>	<b>21,084</b>
<b>Accruals and deferred income</b>		<b>1,609</b>	<b>1,318</b>	<b>1,271</b>
<b>Total Liabilities</b>		<b>191,852</b>	<b>184,034</b>	<b>187,164</b>

## Consolidated Cash Flow Statement

	Six months ended 31 December 2000 (Unaudited) £'000	Six months ended 31 December 1999 (Unaudited) £'000	Year ended 30 June 2000 £'000
<b>OPERATING ACTIVITIES</b>			
Premiums received from policyholders	53,501	50,721	102,295
Net reinsurance	(765)	(1,042)	(1,804)
Claims paid	(22,250)	(22,214)	(48,230)
Commissions paid	(2,158)	(1,867)	(3,899)
Commissions received	15	12	36
Cash paid to and on behalf of employees	(7,111)	(6,070)	(12,941)
Interest received	2,438	2,651	6,828
Other operating cash payments	(13,296)	(12,262)	(27,069)
Other operating cash receipts	884	968	1,779
<b>Net cash inflow from operating activities</b>	<b>11,258</b>	<b>10,897</b>	<b>16,995</b>
<b>Returns on investment and servicing of finance</b>	<b>(27)</b>	<b>(72)</b>	<b>(117)</b>
<b>Taxation</b>	<b>(1,209)</b>	<b>174</b>	<b>(6,287)</b>
<b>Capital expenditure and financial investment</b>	<b>(610)</b>	<b>(1,676)</b>	<b>(2,622)</b>
<b>Acquisitions</b>	<b>—</b>	<b>(960)</b>	<b>(960)</b>
<b>Equity dividends paid</b>	<b>(3,544)</b>	<b>(3,106)</b>	<b>(4,769)</b>
<b>Financing</b>	<b>506</b>	<b>78</b>	<b>200</b>
<b>Increase in cash in the period</b>	<b>6,374</b>	<b>5,335</b>	<b>2,440</b>
<b>Cash flows were invested as follows:</b>			
Cash holdings	91	183	353
Deposits with credit institutions	41	5,133	2,913
Investment properties	234	—	1,066
Ordinary shares and unit trusts	—	2	4
Personal loans	1,230	(455)	(36)
Amounts owed to credit institutions	4,778	472	(1,860)
<b>Net investment of cash flows</b>	<b>6,374</b>	<b>5,335</b>	<b>2,440</b>

## Notes to the Unaudited Financial Statements

### 1. Turnover

	Six months ended 31 December 2000 (Unaudited) £'000	Six months ended 31 December 1999 (Unaudited) £'000	Year ended 30 June 2000 £'000
UK	53,757	52,329	105,572
Other EU member states	1,716	501	1,553
Gross premium income	55,473	52,830	107,125
Support services	1,326	1,061	2,063
Other income	15	12	40
Turnover	56,814	53,903	109,228

### 2. Profit before Taxation

#### (a) Analysis

	£'000	£'000	£'000
Insurance:			
Earned premiums, net of reinsurance	51,036	48,947	100,535
Claims incurred, net of reinsurance	(23,989)	(23,502)	(47,358)
Net operating expenses, technical account	(22,134)	(21,703)	(44,093)
Contribution from insurance activities	4,913	3,742	9,084
Support services:			
Income	1,326	1,061	2,063
Direct costs	(871)	(495)	(948)
Administrative expenses	(260)	(213)	(613)
Contribution from support services	195	353	502
Other income	15	12	40
Other charges	(326)	(280)	(677)
Amortisation of goodwill	(41)	(16)	(70)
Profit before investment income and tax	4,756	3,811	8,879
Net investment income (note 4)	3,546	5,013	9,040
Profit before taxation	8,302	8,824	17,919
<b>(b) Geographic</b>			
UK	8,576	9,239	18,828
Other EU member states	(274)	(415)	(909)
	8,302	8,824	17,919

## Notes to the Unaudited Financial Statements

### 3. Analysis of Expenses

	Six months ended 31 December 2000 (Unaudited) £'000	Six months ended 31 December 1999 (Unaudited) £'000	Year ended 30 June 2000 £'000
Incurring acquisition costs	12,714	12,744	26,294
Administrative expenses	9,420	8,959	17,799
Trade services	1,131	708	1,561
Other charges	367	296	677
Expenses	23,632	22,707	46,331

### 4. Net investment income

#### (a) Analysis

	£'000	£'000	£'000
Investment income	3,774	3,536	7,299
Interest payable	(27)	(72)	(117)
Unrealised gains/(losses)	(201)	1,549	1,858
	3,546	5,013	9,040

#### (b) By source

	£'000	£'000	£'000
Deposits and loans	3,626	3,406	7,025
Equities	(165)	1,582	1,551
Properties	85	25	464
	3,546	5,013	9,040

### 5. Dividends

The Board has declared an interim dividend of 5.60p per ordinary 10p share payable on 10 May 2001 to shareholders who are on the Register at the close of business on 6 April 2001.

### 6. Earnings per share

Earnings per share of 16.63p and 17.67p for the six months to 31 December 2000 and 1999 respectively have been calculated on the basis of 34,687,861 and 34,536,660 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.

**7. Investments**

	<b>31 December 2000</b> <i>(Unaudited)</i> <b>£'000</b>	<b>31 December 1999</b> <i>(Unaudited)</i> <b>£'000</b>	<b>30 June 2000</b> <b>£'000</b>
Freehold land and buildings	5,234	3,517	5,000
Shares, securities and mortgages	11,809	12,059	12,002
Loans	13,873	12,236	12,643
Deposits with credit institutions	93,372	95,557	93,339
	<b>124,288</b>	<b>123,369</b>	<b>122,984</b>

**8. Reinsurers' Share of Technical Provisions**

	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Unearned premiums	1,359	1,769	1,524
Long-term business provision	478	492	478
Claims outstanding	222	277	243
	<b>2,059</b>	<b>2,538</b>	<b>2,245</b>

**9. Debtors**

	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Debtors arising from direct insurance operations	23,970	19,233	21,975
Debtors arising from reinsurance operations	226	120	121
Other	1,462	887	1,049
	<b>25,658</b>	<b>20,240</b>	<b>23,145</b>

**10. Other Assets**

	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Tangible assets	4,134	4,447	4,457
Cash at bank and in hand	480	231	398
	<b>4,614</b>	<b>4,678</b>	<b>4,855</b>

## Notes to the Unaudited Financial Statements

### 11. Prepayments and Accrued Income

	31 December 2000 (Unaudited) £'000	31 December 1999 (Unaudited) £'000	30 June 2000 £'000
Deferred acquisition costs	27,378	26,967	26,685
Other prepayments and accrued income	4,101	2,454	3,394
	<u>31,479</u>	<u>29,421</u>	<u>30,079</u>

### 12. Deferred Acquisition Costs

	Commission 31 December 2000 (Unaudited) £'000	Other expenses 31 December 2000 (Unaudited) £'000	Total 31 December 2000 (Unaudited) £'000
At 1 July 2000	5,839	20,846	26,685
Arising in period	2,567	10,840	13,407
Charge for period	(1,834)	(10,880)	(12,714)
At 31 December 2000	<u>6,572</u>	<u>20,806</u>	<u>27,378</u>

### 13. Share Capital and Share Premium

	Share capital £'000	Share premium £'000
At 1 July 2000	3,459	1,290
Arising in period	17	489
At 31 December 2000	<u>3,476</u>	<u>1,779</u>

### 14. Technical Provisions

	31 December 2000 (Unaudited) £'000	31 December 1999 (Unaudited) £'000	30 June 2000 £'000
Unearned premiums	102,045	97,672	99,117
Claims outstanding	6,278	5,914	4,260
Long-term business fund	2,075	2,134	2,091
Linked liabilities	3,024	2,962	3,084
	<u>113,422</u>	<u>108,682</u>	<u>108,552</u>

**15. Net Insurance Funds**

	<b>31 December 2000</b> <i>(Unaudited)</i> <b>£'000</b>	<b>31 December 1999</b> <i>(Unaudited)</i> <b>£'000</b>	<b>30 June 2000</b> <b>£'000</b>
Technical provisions	113,422	108,682	108,552
Reinsurers' share of technical provisions	(2,059)	(2,538)	(2,245)
Deferred acquisition costs	(27,378)	(26,967)	(26,685)
	<b>83,985</b>	<b>79,177</b>	<b>79,622</b>

**16. Creditors**

	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Insurance creditors	7,907	7,901	7,397
Due to credit institutions	263	2,724	5,041
Dividends	1,947	1,660	3,528
Taxation and social security	5,105	7,530	3,774
Other	1,059	1,503	1,344
	<b>16,281</b>	<b>21,318</b>	<b>21,084</b>

**17.** The results for the six months ended 31 December 2000 and 1999 and the results for the year ended 30 June 2000 do not constitute statutory accounts. The statutory accounts for the year ended 30 June 2000 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*

### *Dividends*

Interim 2000/2001	—Ex dividend	4 April 2001
	—Record date	6 April 2001
	—Payment	10 May 2001
Final 2000/2001	—Ex dividend	10 October 2001
	—Record date	12 October 2001
	—Payment	16 November 2001

### *Announcements*

Preliminary results for year ended 30 June 2001      30 August 2001

*Annual General Meeting*      14 November 2001



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