

esure Services Limited

Directors' report and financial statements

**For the year ended
31 December 2001**



esure Services Limited

Company information

Directors	P J Wood P J Graham
Secretary	S M MacDonald
Company number	2135610
Registered office	The Observatory Reigate Surrey RH2 0SG
Auditors	KPMG Audit Plc 8 Salisbury Square Blackfriars London EC4Y 8BB

esure Services Limited

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esure Services Limited

**Directors' report
For the year ended 31 December 2001**

The directors present their report and the financial statements for the year ended 31 December 2001.

Principal activities and review of business

The company is principally engaged as a service provider for other members of the esure group of companies.

During the year the company entered into a licence with esure Property Limited to occupy a freehold premises in Reigate and a licence with Halifax Group plc to occupy a leasehold premises in Cheadle.

Results and dividends

The profit for the year, after taxation, amounted to £1,385,000 (2000 - Loss £1,618,000) .

The directors recommend that no dividend be paid.

Directors

The directors who served during the year were:

P J Wood

P J Graham

None of the directors who held office at the end of the financial year had any disclosable interests in the shares of the company. The interests of P J Wood in the shares of esure Holdings Limited are disclosed in the directors' report of that company.

According to the register of directors' interests, no rights to subscribe for shares in the company were granted to any of the directors or their immediate families, or exercised by them, during the year. The rights of P J Graham to subscribe for shares in the parent company are disclosed in the directors' report of that company. No other rights to subscribe for shares in the parent company were granted to any of the other directors or their immediate families.

Employees

The company provides, where possible, the same employee opportunities to disabled persons as to others and seeks to achieve a common awareness amongst staff of corporate objectives, performance and other matters of concern to them as employees.

Auditors

Pursuant to a shareholders' resolution, the company is not obliged to reappoint its auditors annually and KPMG Audit Plc will therefore continue in office.

By order of the board



Sue MacDonald

Company Secretary

28 February 2002

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report to the shareholders of esure Services Limited

We have audited the financial statements of esure Services Limited for the year ended 31 December 2001 set out on pages 4 to 10.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the directors' report and, as described on page 2, the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Audit Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

Basis of audit opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

28 February 2002

esure Services Limited

Profit and loss account
For the year ended 31 December 2001

	Note	2001 £000	2000 £000
Turnover	1, 2	41,452	9,899
Administrative expenses		(40,017)	(11,542)
Operating profit/(loss)	3	1,435	(1,643)
Interest receivable		37	-
Profit/(loss) on ordinary activities before taxation		1,472	(1,643)
Tax on profit/(loss) on ordinary activities	6	(87)	25
Retained profit/(loss) for the financial year	13	1,385	(1,618)

All amounts relate to continuing operations.

There were no recognised gains and losses for 2001 or 2000 other than those included in the profit and loss account.

The notes on pages 6 to 10 form part of these financial statements.

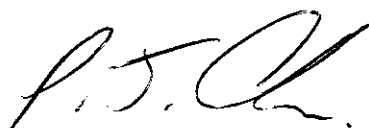
esure Services Limited

Balance sheet
As at 31 December 2001

	Note	£000	2001 £000	2000 £000
Fixed assets				
Tangible fixed assets	7		7,970	7,272
Current assets				
Debtors	8	1,524		6,803
Deferred taxation		39		-
Cash at bank and in hand		1,153		2
		<u>2,716</u>		<u>6,805</u>
Creditors: amounts falling due within one year	9	<u>(10,531)</u>		<u>(14,366)</u>
Net current liabilities			<u>(7,815)</u>	<u>(7,561)</u>
Total assets less current liabilities			<u>155</u>	<u>(289)</u>
Creditors: amounts falling due after more than one year	10		<u>(388)</u>	<u>(1,163)</u>
Provisions for liabilities and charges				
Deferred taxation	11		-	(166)
Net liabilities			<u>(233)</u>	<u>(1,618)</u>
Capital and reserves				
Called up share capital	12		-	-
Profit and loss account	13		<u>(233)</u>	<u>(1,618)</u>
Equity shareholders' funds	14		<u>(233)</u>	<u>(1,618)</u>

The notes on pages 6 to 10 form part of these financial statements.

The financial statements were approved by the board on 28 February 2002 and signed on its behalf.



P J Graham
Chief Executive

**Notes to the financial statements
For the year ended 31 December 2001**

1. Accounting policies

1.1 Basis of preparation of financial statements

The financial statements have been prepared in accordance with applicable accounting standards, and under the historical cost convention.

The financial statements have been prepared according to the going concern basis, as esure Holdings Limited, the parent undertaking, has indicated that it will continue to provide financial and other support for the foreseeable future.

1.2 Cash flow

The financial statements do not include a cash flow statement because the company is exempt from the requirement to prepare such a statement under the Financial Reporting Standard No. 1 (revised). The cash flows of the company are included in the consolidated group cash flow statements of esure Holdings Limited.

1.3 Turnover

Turnover comprises the invoiced value of goods and services supplied by the company to other members of the group, exclusive of Value Added Tax and trade discounts.

1.4 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less depreciation. Depreciation is provided at rates calculated to write off the cost of fixed assets, less their estimated residual value, over their expected useful lives of between 3 and 8 years on a straight line basis.

1.5 Deferred taxation

Provision is made for taxation deferred as a result of material timing differences between the incidence of income and expenditure for taxation and accounts purposes, using the liability method, only to the extent that, in the opinion of the directors, there is a reasonable probability that a liability or asset will crystallise in the near future.

1.6 Pensions

The company is a participating employer in both a defined contribution scheme and a defined benefit pension scheme, based upon final pensionable pay, operated by Halifax Group plc. The assets of the schemes are held separately from those of the company in independently administered funds.

In respect of the defined contribution scheme the amount charged against profits represents the contributions payable to the scheme in respect of the current accounting year.

For the defined benefit scheme company contributions are set in relation to the current service period only. Consequently, in accordance with Financial Reporting Standard No.17, the amount charged against profits only represents the contributions payable to the scheme in respect of the current accounting year.

2. Turnover

The whole of the turnover is attributable to management fees received and receivable from within the United Kingdom.

3. Operating profit/(loss)

The operating profit/(loss) is stated after charging:

	2001	2000
	£000	£000
Depreciation of tangible fixed assets:		
- owned by the company	1,976	583
Auditors' remuneration - audit	21	15
Auditors' remuneration - non-audit	66	-
	<hr/>	<hr/>

esure Services Limited

**Notes to the financial statements
For the year ended 31 December 2001**

4. Staff costs

Staff costs were as follows:

	2001 £000	2000 £000
Wages and salaries	11,627	2,699
Social security costs	1,103	234
Other pension costs	294	94
	<u>13,024</u>	<u>3,027</u>

The average monthly number of employees, including directors, during the year was 453 (2000 - 65).

5. Directors' remuneration

Although the directors are employed and paid by the company, their emoluments are in respect of their duties as directors of esure Insurance Limited. Therefore their remuneration is disclosed in the financial statements of esure Insurance Limited and their interests in shares or options to purchase shares in the ultimate parent undertaking, esure Holdings Limited, in the directors' report of that company.

6. Taxation

	2001 £000	2000 £000
UK corporation tax		
Current tax on income for the period	386	(191)
Transfer (from)/to deferred taxation in respect of current period	(205)	166
Adjustments in respect of prior periods - corporation tax	(94)	-
	<u>87</u>	<u>(25)</u>

esure Services Limited

Notes to the financial statements
For the year ended 31 December 2001

7. Tangible fixed assets

	Furniture, fittings and equipment £000
Cost	
At 1 January 2001	7,855
Additions	2,674
At 31 December 2001	<u>10,529</u>
Depreciation	
At 1 January 2001	583
Charge for the year	1,976
At 31 December 2001	<u>2,559</u>
Net book value	
At 31 December 2001	<u>7,970</u>
At 31 December 2000	<u>7,272</u>

8. Debtors

	2001 £000	2000 £000
Due within one year		
Amounts owed by group undertakings	1,415	6,803
Prepayments and accrued income	109	-
	<u>1,524</u>	<u>6,803</u>

9. Creditors:
Amounts falling due within one year

	2001 £000	2000 £000
Amounts owed to group undertakings	6	2,524
Other creditors (see note 17)	7,001	9,988
Accruals and deferred income	3,524	1,854
	<u>10,531</u>	<u>14,366</u>

esure Services Limited

Notes to the financial statements
For the year ended 31 December 2001

10. Creditors:
Amounts falling due after more than one year

	2001	2000
	£000	£000
Other creditors	388	1,163

11. Deferred taxation

	2001	2000
	£000	£000
At 1 January	166	-
Charge for/(released during) the year	(205)	166
At 31 December	(39)	166

The provision for deferred taxation is as follows:

	2001	2000
	£000	£000
Difference between accumulated depreciation and capital allowances	16	204
Taxation losses not eligible for offset in the current accounting period	(55)	(38)
	(39)	166

There were no amounts not provided.

12. Share capital

	2001	2000
	£	£
Authorised, allotted, called up and fully paid		
2 Ordinary shares of £1 each	2	2

13. Reserves

Profit and loss account

At 1 January 2001	(1,618)
Profit retained for the year	1,385
At 31 December 2001	(233)

Notes to the financial statements
For the year ended 31 December 2001

14. Reconciliation of movement in shareholders' funds

	2001 £000	2000 £000
Profit for the year	1,385	(1,618)
	<u>1,385</u>	<u>(1,618)</u>
Opening shareholders' funds	(1,618)	-
Closing shareholders' funds	<u>(233)</u>	<u>(1,618)</u>

15. Capital commitments

At 31 December 2001 the company had capital commitments as follows:

	2001 £000	2000 £000
Contracted for but not provided in these financial statements	<u>1,496</u>	<u>-</u>

16. Pension commitments

The company is a participating employer in both a defined contribution pension scheme and a defined benefit pension scheme, based on final pensionable pay, operated by Halifax Group plc. 23 employees participate in the defined benefit scheme, the Halifax Retirement Fund (HRF). Disclosures in respect of this fund under both a SSAP 24 basis and a transitional FRS 17 rule are given in total in the Halifax Group plc accounts as it is not practicable to apportion the underlying assets and liabilities. The current surplus on the HRF on a FRS 17 basis at 31 December 2001 is £16m.

The pension cost charge for the period represents contributions payable by the company to both pension schemes and amounted to £97,000 (2000 - £nil) for the defined contribution scheme and £197,000 (2000 - £91,000) for the defined benefit scheme. There were no outstanding or prepaid contributions for either scheme at either the beginning or end of the financial year.

17. Ultimate parent undertaking and related party disclosures

The company is a wholly owned subsidiary undertaking of esure Holdings Limited, a company incorporated in Great Britain and the results of the company will be included within the consolidated financial statements of esure Holdings Limited.

The ultimate parent company, while not controlled by, is majority owned by HBOS plc, a company incorporated in Scotland. The results of the esure group will be included within those of HBOS plc on the basis of a joint venture relationship with a participating interest.

At 31 December 2000 there was £8,886,000 of loan funding due to Halifax Group plc which was repaid in the year.

As noted above, employees of the company are offered membership of pension schemes operated by Halifax Group plc. Administration costs associated with participation by employees of the company will be recharged to the company on a cost basis.