

Registered number: 2135610

esure Services Limited

Directors' report and financial statements

**For the year ended
31 December 2004**



esure Services Limited

Company information

Directors	P J Wood P J Graham A P Whitehouse P A Hodgkinson (appointed 30/04/2004)
Secretary	S M MacDonald
Company number	2135610
Registered office	The Observatory Reigate Surrey RH2 0SG
Auditors	KPMG Audit Plc Chartered Accountants & Registered Auditor 8 Salisbury Square Blackfriars London EC4Y 8BB

esure Services Limited

Contents

	Page
Directors' report	1
Statement of directors' responsibilities	2
Auditors' report	3
Profit and loss account	4
Balance sheet	5
Notes to the financial statements	6 - 11

esure Services Limited

**Directors' report
For the year ended 31 December 2004**

The directors present their report and the financial statements for the year ended 31 December 2004.

Principal activities and review of business

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

Results and dividends

The loss for the year, after taxation, amounted to £51,000 (2003 - Loss £136,000) .

The directors do not recommend the payment of a dividend.

Share capital

Full details of the movements in the authorised and issued share capital of the company during the year are provided in note 13 to the accounts.

The capital of the company was increased on 20 December 2004 in order to meet solvency requirements, following the introduction of a new regulatory regime for general insurance intermediaries, by issuing 499,998 fully paid up £1.00 ordinary shares to esure Holdings Limited.

Directors

The directors who served during the year were:

P J Wood
P J Graham
A P Whitehouse
P A Hodgkinson (appointed 30/04/2004)

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 and P J Graham in the shares of esure Holdings Limited are disclosed in the directors' report of that company. The interests of A P Whitehouse in the shares of esure Holdings Limited are disclosed in the directors' report of esure Insurance Limited.

Events since the end of the year

On 1 January 2005 the company acquired the business of First Alternative Insurance Services Limited for £1.

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
8 February 2005

esure Services Limited

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.

esure Services Limited

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 2004 set out on pages 4 to 11.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's 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 and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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 Auditing 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 2004 and of its loss 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

08 February 2005

esure Services Limited

Profit and loss account
For the year ended 31 December 2004

	Note	2004 £000	2003 £000
Turnover	1, 2	106,671	76,282
Administrative expenses		(107,163)	(76,494)
Other operating income	3	707	333
Operating profit	4	215	121
Interest receivable		55	24
Profit on ordinary activities before taxation		270	145
Tax on profit on ordinary activities	7	(321)	(281)
Loss on ordinary activities after taxation		(51)	(136)

All amounts relate to continuing operations.

There were no recognised gains and losses for 2004 or 2003 other than those included in the profit and loss account.

The notes on pages 6 to 11 form part of these financial statements.

esure Services Limited

Balance sheet
As at 31 December 2004

	Note	2004 £000	2003 £000
Fixed assets			
Tangible fixed assets	8	12,431	9,508
Current assets			
Debtors	9	21,510	9,898
Cash at bank and in hand		5,028	265
		<u>26,538</u>	<u>10,163</u>
Creditors: amounts falling due within one year	10	<u>(37,330)</u>	<u>(19,981)</u>
Net current liabilities		<u>(10,792)</u>	<u>(9,818)</u>
Total assets less current liabilities		<u>1,639</u>	<u>(310)</u>
Creditors: amounts falling due after more than one year	11	<u>(1,500)</u>	<u>-</u>
Net assets/(liabilities)		<u><u>139</u></u>	<u><u>(310)</u></u>
Capital and reserves			
Called up share capital	13	500	-
Profit and loss account	14	(361)	(310)
Shareholders' funds - all equity	15	<u><u>139</u></u>	<u><u>(310)</u></u>

The financial statements were approved by the board on 8 February 2005 and signed on its behalf.



P J Graham
Director



A P Whitehouse
Director

esure Services Limited

Notes to the financial statements For the year ended 31 December 2004

1. Accounting policies

1.1 Basis of preparation of financial statements

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

As the company is a wholly owned subsidiary of esure Holdings Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of esure Holdings Limited, within which this company is included, can be obtained from the address given in note 18.

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, 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 on the following bases:

Fixtures and fittings	-	3 to 8 years	straight line
Office equipment	-	3 years	straight line
Computer equipment	-	3 to 5 years	straight line

1.5 Deferred taxation

Provision is made in full for all taxation deferred in respect of timing differences that have originated but not reversed by the balance sheet date, except for gains on disposal of fixed assets which will be rolled over into replacement assets. No provision is made for taxation on permanent differences.

Deferred tax assets are recognised to the extent that it is more likely than not that they will be recovered.

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 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 the company is unable to identify its share of the underlying assets and liabilities of the scheme on a consistent and reasonable basis and therefore, as permitted by FRS 17 'Retirement benefits', accounts for the scheme as if it were a defined contribution scheme. As a result the amount charged against profits 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.

All turnover arose within the United Kingdom.

esure Services Limited

**Notes to the financial statements
For the year ended 31 December 2004**

3. Other operating income

	2004	2003
	£000	£000
Government grants received	<u>707</u>	<u>333</u>

4. Operating profit

The operating profit is stated after charging:

	2004	2003
	£000	£000
Depreciation of tangible fixed assets:		
- owned by the company	4,926	3,958
Auditors' remuneration	17	26
Auditors' remuneration - non-audit	24	97
	<u> </u>	<u> </u>

Auditors' remuneration - non-audit relates to consultancy fees in connection with regulatory change.

5. Staff costs

Staff costs were as follows:

	2004	2003
	£000	£000
Wages and salaries	30,597	23,297
Social security costs	2,940	2,199
Other pension costs	798	628
	<u>34,335</u>	<u>26,124</u>

The average monthly number of employees, including directors, during the year was 1,258 (2003 - 1,082).

6. Directors' remuneration

During the year retirement benefits were accruing to 2 directors (2003 - 2) in respect of defined benefit pension schemes.

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.

esure Services Limited

**Notes to the financial statements
For the year ended 31 December 2004**

7. Taxation

	2004	2003
	£000	£000
Analysis of tax charge in year		
Current tax (see note below)		
UK corporation tax charge on profits of the year	789	408
Adjustments in respect of prior periods	88	4
Total current tax	<u>877</u>	<u>412</u>
Deferred tax		
Origination and reversal of timing differences	(556)	(131)
Total deferred tax (see note 12)	<u>(556)</u>	<u>(131)</u>
Tax on profit on ordinary activities	<u><u>321</u></u>	<u><u>281</u></u>

Factors affecting tax charge for year

The tax assessed for the year is lower than the standard rate of corporation tax in the UK applicable to the company (30%). The differences are explained below:

	2004	2003
	£000	£000
Profit on ordinary activities before tax	<u>270</u>	<u>145</u>
Profit on ordinary activities multiplied by the relevant standard rate of corporation tax in the UK of 30% (2003 - 30%)	81	44
Effects of:		
Expenses not deductible for tax purposes	337	236
Capital allowances for period in excess of depreciation	371	186
Other short term timing differences	-	(58)
Adjustments to tax charge in respect of prior periods	88	4
Current tax charge for year (see note above)	<u><u>877</u></u>	<u><u>412</u></u>

There were no factors that may affect future tax charges.

esure Services Limited

Notes to the financial statements
For the year ended 31 December 2004

8. Tangible fixed assets

	Furniture, fittings and equipment £000
Cost	
At 1 January 2004	19,238
Additions	8,632
Disposals	(2,728)
At 31 December 2004	25,142
Depreciation	
At 1 January 2004	9,730
Charge for the year	4,926
On disposals	(1,945)
At 31 December 2004	12,711
Net book value	
At 31 December 2004	12,431
At 31 December 2003	9,508

9. Debtors

	2004 £000	2003 £000
Due within one year		
Amounts owed by group undertakings	8,879	8,765
Other debtors	11,919	980
Prepayments and accrued income	5	2
Deferred tax asset (see note 12)	707	151
	21,510	9,898

10. Creditors:
Amounts falling due within one year

	2004 £000	2003 £000
Bank loans and overdrafts	-	24
Amounts owed to group undertakings	57	306
Corporation tax	789	-
Other creditors	20,719	8,234
Accruals	15,765	11,417
	37,330	19,981

esure Services Limited

**Notes to the financial statements
For the year ended 31 December 2004**

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

	2004	2003
	£000	£000
Subordinated loan from group undertaking	1,500	-

The subordinated loan is repayable at two years notice and interest is payable at 6% per annum.

12. Deferred taxation

	2004	2003
	£000	£000
At 1 January	151	20
Released during the year	556	131
At 31 December	707	151

The deferred tax asset is made up as follows:

	2004	2003
	£000	£000
Accelerated capital allowances	707	151
	707	151

There were no amounts not provided.

13. Share capital

	2004	2003
	£000	£000
Authorised, allotted, called up and fully paid		
500,000 Ordinary shares of £1 each	500	-

On 20 December 2004 the authorised share capital of the company was increased from £100 to £500,000, by increasing the number of £1.00 ordinary shares. On the same date 499,998 fully paid up ordinary shares were allotted to esure Holdings Limited.

14. Reserves

Profit and loss account	£000
At 1 January 2004	(310)
Loss retained for the year	(51)
At 31 December 2004	(361)

esure Services Limited

Notes to the financial statements For the year ended 31 December 2004

15. Reconciliation of movement in shareholders' funds

	2004 £000	2003 £000
Loss for the year	(51)	(136)
Shares issued during the year	500	-
	<hr/> 449	<hr/> (136)
Opening shareholders' funds	(310)	(174)
Closing shareholders' funds	<hr/> 139	<hr/> (310)

16. Capital commitments

At 31 December 2004 the company had capital commitments as follows:

	2004 £000	2003 £000
Contracted for but not provided in these financial statements	-	5,393

17. Pension commitments

The group 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 plc. 15 (2003 - 15) employees participate in the defined benefit scheme, the Halifax Retirement Fund (HRF). Disclosure in respect of this fund under both a SSAP 24 basis and under the transitional rule in Financial Reporting Standard No. 17 are given in total in the Halifax plc accounts as it is not practicable to apportion the underlying assets and liabilities. The current deficit on the HRF on a FRS 17 basis at 31 December 2004 is £568m (2003 - £492m).

The pension cost charge for the period represents contributions payable by the group to both pension schemes and amounted to £590,000 (2003 - £428,000) for the defined contribution scheme and £208,000 (2003 - £200,000) 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.

18. 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 registered office of esure Holdings Limited is The Observatory, Reigate, Surrey RH2 0SG.

The ultimate parent company, while not controlled by, is ultimately 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.

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

The esure group of companies shares certain services with the First Alternative group of companies. Their ultimate parent company, First Alternative Holdings Limited, while not controlled by, is ultimately majority owned by HBOS plc. During the year the company supplied certain IT, management and other services under a management agreement to First Alternative Insurance Services Limited, a wholly owned subsidiary undertaking of First Alternative Holdings Limited. Fees payable by First Alternative Insurance Services Limited for those services amounted to £13,326,000 (2003 - £1,429,000) of which £10,874,000 (2003 - £980,000) remained due at 31 December 2004.