

**Report of the Directors and**  
**Audited Financial Statements for the Year Ended 31 December 2012**  
**for**  
**Sesame Services Limited**

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**Sesame Services Limited (Registered number 02338540)**

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for the Year Ended 31 December 2012**

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Sesame Services Limited (Registered number. 02338540)

**Company Information**  
**for the Year Ended 31 December 2012**

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**DIRECTORS.**

G Higginson  
P Hooper  
J A Sadler

**SECRETARY.**

Friends Life Secretarial Services Limited

**REGISTERED OFFICE:**

Pixham End  
Dorking  
Surrey  
RH4 1QA

**REGISTERED NUMBER**

02338540 (England and Wales)

**AUDITORS:**

Ernst & Young LLP  
The Paragon  
Counterslip  
Bristol  
BS1 6BX

**Report of the Directors  
for the Year Ended 31 December 2012**

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The directors present their report with the financial statements of Sesame Services Limited (the "Company") for the year ended 31 December 2012

**PRINCIPAL ACTIVITY**

The principal activity of the Company in the year under review was that of an intermediate parent company within Friends Life Group (the "Group") and the provision of central resources to the Sesame Bankhall Group ('SBG') and certain services to third party organisations

**REVIEW OF BUSINESS**

The loss for the year ended 31 December 2012 was £3.6m (2011 Profit of £7.8m). The profit in the prior year was a result of releasing intercompany loans of £10.3m. In the current year the Company incurred a charge of £1.7m in relation to the impairment of its investments (2011 £0.9m).

The Company has continued to provide resources to SBG during the year. Income from management charges received was £25.6m (2011 £21.8m). The increase in income is due to a change in the mix of costs incurred by the service company and hence a change in the mix of the costs recharged. Other income increased to £6.6m (2011 £4.2m) as a result of a broadening of the Company's third party service offering.

The Company has continued to make substantial investments in the services offering during 2012, including

- A new Attitude to Risk and Portfolio Analysis Tool was launched to help advisors determine the most appropriate investment solutions for clients, and document the advice given
- A new client and practice management system for advisers was launched in conjunction with financial services technology provider, IRESS, which will help adviser firms to operate more efficiently

As part of an initiative to streamline the structure of SBG, a number of dormant companies within SBG were struck off, generating income of £0.1m for the period. This is discussed further in the Related Party Disclosures in Note 19.

**DIVIDENDS**

No dividends will be distributed for the year ended 31 December 2012 (2011 £nil).

**DIRECTORS**

The directors shown below have held office during the whole of the period from 1 January 2012 to the date of this report.

G Higginson  
P Hooper

Changes in directors holding office in the period from 1 January 2012 to the date of this report are as follows:

M A Couzens - resigned 28 February 2013

I Martin - resigned 8 April 2013

J A Sadler - appointed 26 June 2013

Changes in the Secretary over the period from 1 January 2012 are as follows:

D Monger - resigned 27 April 2012

Friends Life Secretarial Services Limited - appointed 27 April 2012

**Report of the Directors  
for the Year Ended 31 December 2012**

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**DIRECTORS AND OFFICERS - INDEMNITY AND INSURANCE**

Friends Life Group plc, the intermediate parent, maintains insurance cover in respect of directors' and officers' liabilities. In addition qualifying third party indemnity arrangements (as defined in section 234 of the Companies Act 2006) are in force for the benefit of the directors within the Group and were in force for the benefit of former directors of the Group during 2012. Copies of the indemnities are available for inspection from the registered office of Friends Life Group plc.

**COMPANY'S POLICY ON PAYMENT OF CREDITORS**

It is the Company's policy to agree terms and conditions for its business transactions with its suppliers. The Company seeks to abide by the payment terms agreed with suppliers whenever it is satisfied that the supplier has abided by its contractual obligations. The trade Creditors of the Company at 31 December 2012 represent 8 days (2011: 8 days) as a proportion of the total amount invoiced by suppliers during the year.

**POLITICAL AND CHARITABLE CONTRIBUTIONS**

The Company made charitable donations of £2,460 during the period (2011: £5,688). No political contributions were made.

**PRINCIPAL RISKS AND UNCERTAINTIES**

The principal risks for the Company are that its investments will decrease in value and not generate returns, that revenue from third parties will decrease and that group companies will require significant changes in service requirements at short notice impacting management charge income received. The Company monitors the performance of the other group companies and works closely with external parties to ensure work is done to maintain levels of income and therefore minimise risks to the Company.

**KEY PERFORMANCE INDICATORS (KPI's)**

Given the nature of the business, its performance is dependent on the service requirements of the rest of the group companies. The Company's directors are of the opinion that analysis using KPI's other than monitoring staffing levels is not necessary for the understanding of the development, performance or position of the business.

**EMPLOYEES**

It is the policy of the Company that disabled people, whether registered or not, should receive full and fair consideration for all job vacancies for which they are suitable applicants. Employees who become disabled during their working life will be retained in employment wherever possible and will be given help with any necessary rehabilitation and retraining. The Company is prepared to modify procedures or equipment, wherever this is practicable, so that full use can be made of an individual's abilities.

The Company seeks to engage all employees in both its short and long term goals. This is achieved through a number of communication methods such as senior management briefings, focus groups, newsletters and, increasingly, through the use of intranet technology.

**FUTURE OUTLOOK**

The Company is part of a broadly-based financial services group, with a long-term vision and commitment to professional financial advice. This commitment and strength, along with the investments made, put the Company in a strong position to provide greater value and choice to more adviser firms in the future - whether they are independent, restricted or a combination of the two.

The Company will also continue its other current activities in the coming year.

**GOING CONCERN**

The Company's business activities, together with the factors likely to affect its future development and position, are set out in this Director's Report. The Company has considerable financial resources. As a consequence the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Report of the Directors  
for the Year Ended 31 December 2012**

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**STATEMENT OF DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the Report of the Directors and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

**STATEMENT AS TO DISCLOSURE OF INFORMATION TO AUDITORS**

So far as the directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Company's auditors are unaware, and each director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**AUDITORS**

In accordance with section 487 of the Companies Act 2006, Ernst & Young LLP are deemed to be re-appointed as the Company's auditor and will therefore continue in office.

**ON BEHALF OF THE BOARD**



G Higginson - Director

8 July 2013

## **Independent Auditors' Report to the Members of Sesame Services Limited**

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We have audited the financial statements of Sesame Services Limited for the year ended 31 December 2012 which comprise the Profit and Loss Account, Balance Sheet, Cash Flow Statement and related notes 1 to 21. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 a Report of the Auditors 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**

As explained more fully in the Directors' Responsibilities Statement as set out on page four, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Report of the Directors to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 December 2012 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.


### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Richard Page (Senior Statutory Auditor)  
for and on behalf of Ernst & Young LLP  
Bristol

8 July 2013

**Profit and Loss Account  
for the Year Ended 31 December 2012**

	Notes	2012 £'000	2011 £'000
<b>TURNOVER</b>	2	32,180	25,999
Cost of sales		<u>25,200</u>	<u>20,365</u>
<b>GROSS PROFIT</b>		6,980	5,634
Administrative expenses		<u>7,226</u>	<u>6,238</u>
		(246)	(604)
Other operating income	3	<u>139</u>	<u>10,309</u>
<b>OPERATING (LOSS)/PROFIT</b>	6	(107)	9,705
Interest receivable and similar income	7	<u>33</u>	<u>23</u>
		(74)	9,728
Amounts written off investments	8	<u>1,696</u>	<u>915</u>
<b>(LOSS)/PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		(1,770)	8,813
Tax on (loss)/profit on ordinary activities	9	<u>1,821</u>	<u>986</u>
<b>(LOSS)/PROFIT FOR THE FINANCIAL YEAR</b>		<u>(3,591)</u>	<u>7,827</u>

**CONTINUING OPERATIONS**

None of the Company's activities were acquired or discontinued during the current year or previous year

**TOTAL RECOGNISED GAINS AND LOSSES**

The Company has no recognised gains or losses other than the loss for the current year and the profit for the previous year

The notes form part of these financial statements




Sesame Services Limited (Registered number: 02338540)

Balance Sheet  
31 December 2012

		2012	2011
	Notes	£'000	£'000
<b>FIXED ASSETS</b>			
Tangible assets	10	1,759	1,743
Investments	11	<u>1,596</u>	<u>3,292</u>
		3,355	5,035
<b>CURRENT ASSETS</b>			
Debtors	12	101,302	103,259
Cash in hand		<u>5,928</u>	<u>359</u>
		107,230	103,618
<b>CREDITORS</b>			
Amounts falling due within one year	13	<u>33,272</u>	<u>31,699</u>
<b>NET CURRENT ASSETS</b>		<u>73,958</u>	<u>71,919</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		77,313	76,954
<b>PROVISIONS FOR LIABILITIES</b>	15	<u>2,705</u>	<u>3,111</u>
<b>NET ASSETS</b>		<u>74,608</u>	<u>73,843</u>
<b>CAPITAL AND RESERVES</b>			
Called up share capital	16	5,599	5,599
Share premium	17	85,999	85,999
Equity capital contributions	17	7,488	3,132
Profit and loss account	17	<u>(24,478)</u>	<u>(20,887)</u>
<b>SHAREHOLDERS' FUNDS</b>	20	<u>74,608</u>	<u>73,843</u>

The financial statements were approved by the Board of Directors on 8 July 2013 and were signed on its behalf by

  
P Hooper - Director

The notes form part of these financial statements

**Cash Flow Statement  
for the Year Ended 31 December 2012**

	Notes	2012 £'000	2011 £'000
<b>Net cash inflow/(outflow) from operating activities</b>	1	6,122	(3,681)
<b>Returns on investments and servicing of finance</b>	2	33	23
<b>Taxation</b>		-	(1)
<b>Capital expenditure and financial investment</b>	2	<u>(586)</u>	<u>(1,477)</u>
<b>Increase/(decrease) in cash in the period</b>		<u>5,569</u>	<u>(5,136)</u>
<hr/>			
<b>Reconciliation of net cash flow to movement in net funds</b>	3		
Increase/(decrease) in cash in the period		<u>5,569</u>	<u>(5,136)</u>
Change in net funds resulting from cash flows		<u>5,569</u>	<u>(5,136)</u>
<b>Movement in net funds in the period</b>		5,569	(5,136)
<b>Net funds at 1 January</b>		<u>359</u>	<u>5,495</u>
<b>Net funds at 31 December</b>		<u>5,928</u>	<u>359</u>

The notes form part of these financial statements

Notes to the Cash Flow Statement  
for the Year Ended 31 December 2012

1 RECONCILIATION OF OPERATING (LOSS)/PROFIT TO NET CASH INFLOW/(OUTFLOW)  
FROM OPERATING ACTIVITIES

	2012	2011
	£'000	£'000
Operating (loss)/profit	(107)	9,705
Depreciation charges	570	176
Capital contribution relating to LTIP	4,356	2,904
Decrease/(increase) in debtors	1,937	(14,756)
Decrease in creditors and provisions	(634)	(1,710)
<b>Net cash inflow/(outflow) from operating activities</b>	<b><u>6,122</u></b>	<b><u>(3,681)</u></b>

2 ANALYSIS OF CASH FLOWS FOR HEADINGS NETTED IN THE CASH FLOW STATEMENT

	2012	2011
	£'000	£'000
<b>Returns on investments and servicing of finance</b>		
Interest received	<u>33</u>	<u>23</u>
<b>Net cash inflow for returns on investments and servicing of finance</b>	<b><u>33</u></b>	<b><u>23</u></b>
 <b>Capital expenditure and financial investment</b>		
Purchase of tangible fixed assets	(603)	(1,443)
Purchase of fixed asset investments	-	(34)
Sale of tangible fixed assets	<u>17</u>	<u>-</u>
<b>Net cash outflow for capital expenditure and financial investment</b>	<b><u>(586)</u></b>	<b><u>(1,477)</u></b>

3 ANALYSIS OF CHANGES IN NET FUNDS

	At 1/1/12	Cash flow	At
	£'000	£'000	31/12/12
			£'000
Net cash			
Cash at bank and in hand	<u>359</u>	<u>5,569</u>	<u>5,928</u>
<b>Total</b>	<b><u>359</u></b>	<b><u>5,569</u></b>	<b><u>5,928</u></b>

The notes form part of these financial statements

**Notes to the Financial Statements  
for the Year Ended 31 December 2012**

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**1 ACCOUNTING POLICIES**

**Basis of accounting**

These financial statements are prepared on the going concern basis, under the historical cost convention, and in accordance with the Companies Act 2006 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently throughout the year, are set out below.

**Going Concern**

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Director's Report. The Company has considerable financial resources. As a consequence, the directors believe that the Company is well placed to manage its business risks successfully despite the current uncertain economic outlook. The directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

**Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates.

**Preparation of consolidated financial statements**

The financial statements contain information about the Company as an individual company and do not contain consolidated financial information as the parent of a group. The Company is exempt under Section 400 of the Companies Act 2006 from the requirements to prepare consolidated financial statements as it and its subsidiary undertakings are included by full consolidation in the consolidated financial statements of its parent, Friends Life Group plc, a company registered in England and Wales.

**Turnover**

Turnover is made up mainly of management charges receivable from other group companies for the provision of services. There is no cost plus arrangement with group companies in respect of the management charge.

Turnover also includes revenue in relation to the development and sale of software for financial advisers. Revenue from advertising contracts is recognised rateably over the period of the contract. Electronic data interchange and remote processing services (transaction processing) are recognised as the work is performed. Professional services, such as implementation, training and consultancy, are recognised when the services are performed. Turnover represents invoiced value net of value added tax and/or trade discounts. All turnover relates to sales in the United Kingdom.

**Tangible fixed assets**

Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life:

Plant and machinery        -        10% - 25% per annum

Assets under construction are not depreciated until they are brought into use.

1 ACCOUNTING POLICIES - continued

**Deferred tax**

Deferred tax is provided using the full provision method following the Company's adoption of FRS 19 "Deferred Tax". Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less tax in the future. Resultant deferred tax assets are recognised only to the extent that it is considered more likely than not that there will be suitable taxable profits from which the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the average tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

**Pension costs and other post-retirement benefits**

The Company operates a defined contribution pension scheme. Contributions payable to the Company's pension scheme are charged to the profit and loss account in the period to which they relate.

**Provisions for Liabilities and Charges**

The Company has recognised provisions for future costs that it expects to incur as a result of transactions, actions or commitments that had taken place at the balance sheet date. The dilapidations provision is recognised based on estimated costs payable at the end of relevant leases. The onerous lease provision is in relation to a property of which it is a tenant under a lease agreement. The other provision is discussed further in the notes to the accounts.

**Long term incentive plan**

The Company employs the key management personnel of Sesame Bankhall Group Limited.

There is a long term incentive plan ("LTIP") in place which was introduced for key management personnel of Sesame Bankhall Group Limited during 2011.

Sesame Bankhall Group Limited holds 100% of the Ordinary 'B' shares of the Company.

Key management personnel of Sesame Bankhall Group Limited are incentivised through the LTIP which entitles them to a share in the growth of SBG. Subject to service conditions, the scheme entitles participants to cash that equates to 20% of the value of growth in share values of Friends Life Distribution Limited (the Company's immediate parent company). The plan lasts for 6 years, with one third of the value accruing on each of the dates 31 December 2014, 31 December 2015 and 31 December 2016.

The scheme is an equity settled scheme. The scheme will be settled by Friends Provident Distribution Holdings Limited (an intermediate parent company of the Company), according to the particulars of the scheme agreement.

The acquisition date fair value, being the best estimate of the cost of the scheme, will be recognised over the vesting period. The estimated fair value of the scheme will be expensed over the five year term of the plan.

The LTIP award is treated as an equity-settled charge in the Company as the Company does not have an obligation to settle the award. The credit to equity is treated as a capital contribution from Friends Provident Distribution Holdings Limited, as Friends Provident Distribution Holdings Limited is compensating the scheme participants at no expense to the Company.

The Company is required to account for the estimated fair value of the scheme settlement over the vesting period.

In 2012, a charge of £4.4 million (2011: £2.9 million) has been recognised in the profit and loss account and a corresponding entry made to the non-distributable capital contribution reserve in the balance sheet.

No cash payments in relation to this scheme will be made until 2015.

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

2 **TURNOVER**

The turnover and loss (2011 profit) before taxation are attributable to the one principal activity of the Company

An analysis of turnover by class of business is given below

	2012	2011
	£'000	£'000
Management charges receivable	25,582	21,823
Software development and sale	175	152
Data services	1,637	-
Advertising and research	4,038	2,262
Professional services	748	34
Maintenance and support	-	672
Electronic data interchange	-	1,056
	<u>32,180</u>	<u>25,999</u>

3 **OTHER OPERATING INCOME**

	2012	2011
	£'000	£'000
Release of inter-company balances	<u>139</u>	<u>10,309</u>

Following the strike off of a number of subsidiary undertakings the Company released several intercompany balances during the year which resulted in other operating income of £139,910. This is discussed further in the Related Party Disclosures in Note 19.

In the prior year, a number of inter-company balances were released following the disposal of IE Group Limited, a former subsidiary undertaking of the Company. The release of these balances resulted in the recognition of other operating income of £10,309,000 in 2011.

4 **STAFF COSTS**

	2012	2011
	£'000	£'000
Wages and salaries	19,091	16,094
Social security costs	1,813	1,579
Other pension costs	<u>637</u>	<u>605</u>
	<u>21,541</u>	<u>18,278</u>

The average monthly number of employees during the year was as follows

	2012	2011
Sales staff	20	12
Administrative and management staff	<u>382</u>	<u>357</u>
	<u>402</u>	<u>369</u>

Included within the wages and salaries cost above is a charge of £4,356,000 (2010 £2,904,000) relating to the LTIP. Further details of the scheme can be found in Note 5 Directors Emoluments.

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

5 DIRECTORS' EMOLUMENTS

	2012 £'000	2011 £'000
Management remuneration	71	97
Pension costs	<u>5</u>	<u>9</u>
	<u>76</u>	<u>106</u>
Number of directors in pension scheme	<u>4</u>	<u>4</u>

The directors are remunerated by the Company but these emoluments are apportioned between other SBG companies. The amounts disclosed above are the proportion of the directors' emoluments which relate to their services to the Company.

As stated in the accounting policies an LTIP for key management personnel of Sesame Bankhall Group Limited was introduced during 2011.

The Company employs the key management personnel of Sesame Bankhall Group Limited.

The amount receivable by directors in relation to this scheme in 2012 is £4.4m (2011: £2.9m) which has been recognised as a charge in the profit and loss account. No cash payments in relation to the scheme will be made until 2015.

The current year charge £4.4m represents the 2012 proportion of the acquisition date fair value, being the best estimate of the cost of the scheme which will be recognised over the vesting period.

The charge of £4.4m relating to the LTIP has not been re-apportioned between other group companies as this is not considered appropriate because the scheme participants were all employees of the Company during the year.

6 OPERATING (LOSS)/PROFIT

The operating loss (2011: operating profit) is stated after charging

	2012 £'000	2011 £'000
Depreciation - owned assets	570	176
Operating leases - other	911	1,158
Auditors' remuneration - audit services	<u>375</u>	<u>303</u>

The Company has borne the auditors' remuneration for all of the Sesame Bankhall Group companies.

Auditors' remuneration for audit services relating directly to the Company was £89,000 excluding VAT (2011: £93,000). There were no non-audit fees in either year.

7 INTEREST RECEIVABLE AND SIMILAR INCOME

	2012 £'000	2011 £'000
Interest receivable	<u>33</u>	<u>23</u>

Interest receivable is recognised on an accruals basis.

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

8 AMOUNTS WRITTEN OFF INVESTMENTS

	2012	2011
	£'000	£'000
Amounts written off investments	<u>1,696</u>	<u>915</u>

See Note 11 for further details on the amounts written off investments during 2012

9 TAXATION

**Analysis of the tax charge**

The tax charge on the loss on ordinary activities for the year was as follows

	2012	2011
	£'000	£'000
Current tax		
UK corporation tax	1,500	804
Prior period adjustment	<u>301</u>	<u>32</u>
Total current tax	1,801	836
Deferred tax	<u>20</u>	<u>150</u>
Tax on (loss)/profit on ordinary activities	<u>1,821</u>	<u>986</u>

UK corporation tax has been charged at 24.5% (2011 - 26.5%)

**Factors affecting the tax charge**

The tax assessed for the year is higher than the standard rate of corporation tax in the UK. The difference is explained below

	2012	2011
	£'000	£'000
(Loss)/profit on ordinary activities before tax	<u>(1,770)</u>	<u>8,813</u>
(Loss)/profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 24.5% (2011 - 26.5%)	(434)	2,335
Effects of		
Non-deductible expenditure	45	28
Tax on intercompany transactions	450	198
Prior period adjustment	301	32
Tax on LTIP charge	1,067	770
Amounts written off investments	416	242
Accelerated capital allowances movement	(10)	(130)
Release of intercompany balances	<u>(34)</u>	<u>(2,639)</u>
Current tax charge	<u>1,801</u>	<u>836</u>



Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

## 9 TAXATION - continued

**Factors that may affect future tax charges**

A rate change from 26% to 24% with effect from 1 April 2012 was enacted in March 2012, and a further rate change to 23% with effect from 1 April 2013 was enacted in July 2012. Further reductions to 21% and 20% with effect from 1 April 2014 and 1 April 2015 respectively have been announced but not substantively enacted at the balance sheet date.

A deferred tax asset of £216,202 has been recorded in respect of fixed asset timing differences on the basis that the criteria in FRS 19 regarding future profitability have been met. These deferred tax balances are currently recorded at 23%, the enacted rate of corporation tax from 1 April 2013. Should the further proposed reductions to 20% by 1 April 2015 be enacted the maximum impact would be to reduce the deferred tax asset by £28,200.

## 10 TANGIBLE FIXED ASSETS

	Plant and machinery £'000	Assets under construction £'000	Totals £'000
<b>COST</b>			
At 1 January 2012	2,161	29	2,190
Additions	424	179	603
Disposals	(275)	-	(275)
Reclassification/transfer	153	(153)	-
At 31 December 2012	<u>2,463</u>	<u>55</u>	<u>2,518</u>
<b>DEPRECIATION</b>			
At 1 January 2012	447	-	447
Charge for year	570	-	570
Eliminated on disposal	(258)	-	(258)
At 31 December 2012	<u>759</u>	<u>-</u>	<u>759</u>
<b>NET BOOK VALUE</b>			
At 31 December 2012	<u>1,704</u>	<u>55</u>	<u>1,759</u>
At 31 December 2011	<u>1,714</u>	<u>29</u>	<u>1,743</u>

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

## 11 FIXED ASSET INVESTMENTS

	Shares in group undertakings £'000
<b>COST</b>	
At 1 January 2012	174,047
Disposals	<u>(40,631)</u>
At 31 December 2012	<u>133,416</u>
<b>PROVISIONS</b>	
At 1 January 2012	170,755
Provision for year	1,696
Eliminated on disposal	<u>(40,631)</u>
At 31 December 2012	<u>131,820</u>
<b>NET BOOK VALUE</b>	
At 31 December 2012	<u>1,596</u>
At 31 December 2011	<u>3,292</u>

Group policy is to undertake an impairment review of fixed asset investments on an annual basis. This was carried out using a discounted future cash flow calculation covering an eight year period and an assessment of the net realisable value of the investment, as suggested by Financial Reporting Standard 11. The discount rate used was 6.55%. The discount rate used was based on the Bank of England yield rate with an additional 5% added on for risk. An impairment of £1,696,000 in relation to Sesame General Insurance Services Limited was identified and recognised during the year.

The investments in subsidiaries comprise

	Cost £'000	Provision for diminution in value £'000	Net book value £'000
Countrywide Independent Advisers Limited	1,300	1,300	-
DBS Financial Management plc	88,280	88,280	-
Financial Options Services Limited	27,900	27,900	-
Sesame Bankhall Valuation Services Limited	8	-	8
Sesame Desktop Services Limited	11	11	-
Optimum Investment Solutions Limited	11	11	-
Sesame General Insurance Services Limited	15,900	14,312	1,588
Sesame Desktop Solutions Limited	5	5	-
Sesame Group India Private Limited	<u>1</u>	<u>1</u>	<u>-</u>
At 31 December 2012	<u>133,416</u>	<u>131,820</u>	<u>1,596</u>

Sesame Group India Private Limited is incorporated and registered in India. All other companies are incorporated in Great Britain and registered in England and Wales. All investments in subsidiaries represent 100% of the Ordinary share capital in issue with the exception of Sesame Bankhall Valuation Services Limited where the Company owns 75% of the issued Ordinary share capital.

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

## 12 DEBTORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012	2011
	£'000	£'000
Trade receivables	1,501	306
Amounts owed by group undertakings	98,488	101,483
Other receivables	199	300
Deferred tax asset	216	236
Prepayments and accrued income	898	934
	<u>101,302</u>	<u>103,259</u>

Amounts owed by group undertakings are unsecured, interest free, have no fixed date of repayment and are repayable on demand. Further information relating to amounts owed by group undertakings is detailed in the Related Parties Disclosures in Note 19.

Deferred tax arose from decelerated capital allowances. The Company is expected to trade profitably in future periods so the deferred tax asset has been recognised in full.

	2012	2011
	£'000	£'000
At 1 January 2012	236	386
Deferred tax charge in profit and loss account	<u>(20)</u>	<u>(150)</u>
At 31 December 2012	<u>216</u>	<u>236</u>

The Company has no unrecognised deferred tax asset at the year end (2011: £nil).

## 13 CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2012	2011
	£'000	£'000
Trade payables	308	804
Amounts owed to group undertakings	26,032	26,933
Corporation tax	2,605	804
Social security and other taxes	896	781
Other payables	2	1
Accruals and deferred income	<u>3,429</u>	<u>2,376</u>
	<u>33,272</u>	<u>31,699</u>

Amounts due to group undertakings are unsecured, interest free and repayable on demand. Further information relating to amounts owed to group undertakings is detailed in the Related Parties Disclosures in Note 19.

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

14 OPERATING LEASE COMMITMENTS

The following operating lease payments are committed to be paid within one year

	Land and buildings	
	2012 £'000	2011 £'000
Expiring		
Between one and five years	<u>852</u>	<u>822</u>

15 PROVISIONS FOR LIABILITIES

	Onerous Lease £'000	Dilapidations £'000	Other £'000	Total £'000
At 1 January 2012	1,017	1,443	651	3,111
(Credited)/charged to the profit and loss account	<u>(494)</u>	<u>34</u>	<u>54</u>	<u>(406)</u>
At 31 December 2012	<u>523</u>	<u>1,477</u>	<u>705</u>	<u>2,705</u>

The Company has made provision for onerous lease commitments in relation to a property of which it is the tenant under a lease agreement. The property is currently empty and an onerous lease and dilapidations provision has been established based on management's assessment of future costs.

Within other provisions are amounts relating to a potential VAT settlement exposure, the timing of which is uncertain.

16 CALLED UP SHARE CAPITAL

Number	Class	Nominal value	2012 £'000	2011 £'000
1,000,001	A Ordinary shares	£1	1,000	1,000
4,598,590	B Ordinary shares	£1	<u>4,599</u>	<u>4,599</u>
			<u>5,599</u>	<u>5,599</u>

Holders of A ordinary shares are entitled to attend and vote at general meetings but holders of B ordinary shares are only entitled to attend and vote if the business of the meeting involves a reduction in share capital or a variation of class rights.

The rights attaching to the shares are as follows:

"A" Ordinary shareholders are entitled to 0-25% of any dividends paid or of surplus assets on winding up.

"B" Ordinary shareholders are entitled to 99-75% of any dividends paid or of surplus assets on winding up.

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

## 17 RESERVES

	Profit and loss account £'000	Share premium £'000	Equity capital contributions £'000	Totals £'000
At 1 January 2012	(20,887)	85,999	3,132	68,244
Deficit for the year	(3,591)			(3,591)
Capital contributions	-	-	4,356	4,356
At 31 December 2012	<u>(24,478)</u>	<u>85,999</u>	<u>7,488</u>	<u>69,009</u>

As discussed in Note 5 above, a capital contribution reserve was created in the prior year in relation to an equity settled LTIP

The LTIP award is treated as an equity-settled charge in the Company as the Company does not have an obligation to settle the award. The credit to equity is treated as a capital contribution from Friends Provident Distribution Holdings Limited, as Friends Provident Distribution Holdings Limited is compensating the scheme participants at no expense to the Company.

## 18 ULTIMATE PARENT COMPANY

The Company's immediate parent company is Friends Life Distribution Limited, a company incorporated in Great Britain and registered in England and Wales. Friends Life Distribution Limited holds all of the issued Ordinary 'A' Shares of the Company.

Sesame Bankhall Group Limited (a fellow subsidiary undertaking of Friends Life Distribution Limited) holds all of the issued Ordinary 'B' Shares of the Company.

The Ordinary 'A' shares confer full voting rights to the holder.

The Ordinary 'B' shares only confer full voting rights on a reduction of share capital or a variation of class rights.

Due to the difference in the voting rights, and therefore level of control afforded to the different classes of share capital, Friends Life Distribution Limited is identified as the Company's immediate parent.

The smallest group in which the results of the Company are consolidated is that headed by Friends Life Group plc, a company incorporated in Great Britain and registered in England and Wales. Copies of the Group Report and Accounts can be viewed via its website at [www.friendslife.co.uk](http://www.friendslife.co.uk).

The Company's ultimate parent undertaking is Resolution Limited, which is incorporated in Guernsey. Copies of the Group Report and Accounts of Resolution Limited can be obtained from its website at [www.resolution.gg](http://www.resolution.gg).

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

## 19 RELATED PARTY DISCLOSURES

	2012	2011
Included within amounts due from group undertakings are		
Friends Life Distribution Limited	341,507	341,507
Sesame Learning Limited	6,048,273	3,508,821
Sesame Bankhall Group Limited	78,933,419	78,855,069
Sesame Limited	-	3,580,579
Sesame Mortgage Services Limited	22,028	22,028
Xegesis Limited	-	212,447
DBS Management Limited	5,976,137	6,386,123
Sesame Bankhall Valuation Services Limited	246,041	102,440
Sesame Protection Services Limited	-	107
DBS Mortgage Services Limited	-	95
DBS National Financial Services Limited	-	3,207
Bankhall Investment Management Limited	1,104,350	1,104,350
Bankhall Investment Associates Limited	-	131,347
Bankhall PMS Limited	-	781,152
IFA Engine Limited	5,092,219	5,092,219
Bankhall Partnership Limited	-	581,168
TrustPMS Limited	-	123,729
Crystal Clear Financial Advice Limited	477,797	477,797
IFA Exchange Limited	66,925	66,925
Sesame General Insurance Services Limited	178,870	112,372
Friends Provident Distribution Holdings Limited	319	-
	<u>98,487,885</u>	<u>101,483,482</u>
Included within amounts due to group undertakings are		
Countrywide Independent Advisers Limited	6,759,565	6,759,565
Sesame Investment Services Limited	150,074	150,074
Sesame IFA Desktop Solution Limited	-	10,483
Financial Options Services Limited	92,026	92,026
Sesame Limited	981,349	-
Sesame Select Limited	4,210,579	4,210,579
Investment Options Limited	-	10,000
Sesame Direct Limited	-	1,000
Journey Financial Advice Limited	527,064	548,002
Sesame (UK) Limited	-	2
Sesame Network Limited	2	2
DBS Management Limited	46,800	62,400
DBS Financial Management plc	4,489,652	4,489,652
Sesame General Insurance Services Limited	1,864,392	2,092,199
Holly Bank Properties Limited	-	860,660
Bankhall PMS Limited	98,285	-
Point One Limited	2,600,686	2,600,686
Portfolio Member Services Limited	3,860,722	3,860,722
IFA Network Limited	351,194	351,194
Portavista Limited	-	287,738
Premier Mortgage Services (UK) Limited	-	1,000
Portfolio Member Services (Holdings) Limited	-	280
IFA Portfolio Services Limited	-	19,847
Friends Provident Distribution Holdings Limited	-	524,691
	<u>26,032,391</u>	<u>26,932,802</u>

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

## 19 RELATED PARTY DISCLOSURES - continued

During the year there have been management charges, intercompany recharges, and intercompany account movements between Sesame Bankhall Group companies

The purpose of the management and intercompany recharges is to recognise expenses in the correct statutory company. The Company continues to provide resources to Sesame Bankhall Group as the service company for the group. These resources relate to staffing and other overheads. The purpose of the intercompany bank transfers is to ensure adequate capital levels are maintained across group entities. The Company has recognised income of £25,582,167 in relation to management recharges. See Note 2.

Included within Other Receivables is an additional loan balance owed by Sesame Bankhall Valuation Services Limited of £152,814 (2011: £200,000).

During the period there was movement in amounts due to and from group undertakings as a result of a rationalisation of the Sesame Bankhall Group structure. The outstanding balances with the group companies set out below were released during the year as part of the strike off process for each of these companies.

Company	£
Xegesis Limited	212,447
Sesame Protection Services Limited	107
DBS Mortgage Services Limited	95
DBS National Financial Services Limited	3,207
Bankhall Investment Associates Limited	131,347
Bankhall Partnership Limited	581,168
Trust PMS Limited	123,729
Sesame IFA Desktop Solutions Limited	(10,483)
Investment Options Limited	(10,000)
Sesame Direct Limited	(1,000)
Sesame (UK) Limited	(2)
Hollybank Properties Limited	(60,660)
Portavista Limited	(287,738)
Premier Mortgage Services (UK) Limited	(1,000)
Portfolio Member Services (Holdings) Limited	(280)
IFA Portfolio Services Limited	<u>(19,847)</u>
Total	<u>(138,910)</u>

I Martin was also a director of Friends Provident Distribution Holdings Limited and Friends Life Distribution Limited.

## 20 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2012 £'000	2011 £'000
(Loss)/profit for the financial year	(3,591)	7,827
Capital contribution to equity	<u>4,356</u>	<u>2,904</u>
<b>Net addition to shareholders' funds</b>	765	10,731
Opening shareholders' funds	<u>73,843</u>	<u>63,112</u>
<b>Closing shareholders' funds</b>	<u>74,608</u>	<u>73,843</u>

Notes to the Financial Statements - continued  
for the Year Ended 31 December 2012

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21 SUBSIDIARY UNDERTAKINGS

The subsidiary undertakings of the Company are listed below. Each undertaking operates mainly in its country of incorporation and has only one class of ordinary share capital in issue unless otherwise stated.

<b>Held directly by the Company</b>	<b>Nature of business</b>	<b>Incorporated in</b>
Countrywide Independent Advisers Limited	Dormant company	England & Wales
DBS Financial Management plc	Dormant company	England & Wales
Financial Options Services Limited	Holding company	England & Wales
Optimum Investment Solutions Limited	Dormant company	England & Wales
Sesame Bankhall Valuation Services Limited	Panel management company	England & Wales
Sesame Desktop Services Limited	Dormant company	England & Wales
Sesame Desktop Solutions Limited	Dormant company	England & Wales
Sesame General Insurance Services Limited	Insurance company	England & Wales
Sesame Group India Private Limited	Support services company	India
Sesame Network Limited	Dormant company	England & Wales
Sesame Regulatory Services Limited	Dormant company	England & Wales
The Financial Adviser College Limited	Dormant company	England & Wales
The Financial Adviser School Limited	Dormant company	England & Wales
<b>Held indirectly through subsidiary undertakings</b>	<b>Nature of business</b>	<b>Incorporated in</b>
Journey Financial Advice Limited	Non-trading company	England & Wales
Sesame Mortgage Services Limited	Dormant company	England & Wales
Sesame Select Services Limited	Dormant company	England & Wales
The IFA Training School Limited	Dormant company	England & Wales

Financial Options Services Limited has both Ordinary A and Ordinary B shares in issue.

Sesame Bankhall Valuation Services Limited has both Ordinary A and Ordinary B shares in issue. This company is 75% owned by the Company.

Sesame Select Services Limited has both Ordinary and Preference shares in issue.