PEARL GROUP HOLDINGS (No. 2) LIMITED
(formerly Pearl Group Limited)

Company Registration Number: 05282342

INTERIM REPORT
For the half year ended 30 June 2009

CONTENTS

MANAGEMENT REPORT

The directors have pleasure in presenting the interim financial statements of Pearl Group Holdings No. 2 Limited (formerly Pearl Group Limited) and its subsidiary undertakings ("the Group") for the 6 months ended 30 June 2009 which have been subject to review by Ernst and Young.

Strategy

The Group aims to be recognised as the best and most innovative manager of closed life assurance funds, to improve returns to policyholders and deliver value for shareholders.

Principal risks and uncertainties

The risk management objectives and policies of the Group are based on the requirement to protect the Group's regulatory capital position, thereby safeguarding policyholders' guaranteed benefits whilst also ensuring the Group can meet its different cash flow requirements. Subject to the above, the Group seeks to use available capital in pursuing investment opportunities that meet agreed return hurdles for risk taken in order to achieve increased investment returns, generating additional value for policyholders and shareholders.

Insurance risk
Insurance risk in the Group arises through exposure to both increased mortality and longevity and to variances between assumed and actual experience in such factors as persistency levels and various management and administrative expenses. The Group manages these risks by holding prudent reserves based on assumptions that reflect past experience and anticipated future trends. The Company has mitigated mortality and longevity risk through the use of reassurance.

Financial instrument risks
The main risks arising from financial instruments are:

- asset valuation risk, since reductions in the value of assets through market fluctuation will restrict assets available to fund long-term fund obligations and may in extreme circumstances require shareholder funds to be transferred to cover any shortfalls;
- interest rate risk, since movements in interest rates will impact the value of future guarantees and the value of fixed interest securities relative to the value of the related liabilities;
- liquidity risk, arising from either the inability to close out a particular position at or near the previous market price as well as from having insufficient liquid assets to meet payment obligations;
- foreign exchange risk, arising from fluctuations in the value of amounts denominated in foreign currencies; and
- credit risk, arising from the default of the counterparty to a particular financial asset, or from a reinsurer's inability to meet the obligations assumed under its reinsurance arrangements.

The Group's exposure to all these risks is monitored by appropriate committees, primarily by the Asset, Liability and Investment Management Committee ("ALIMCo") the Asset Liability Management Committee ("ALCo") and the Financial Risk and Capital Oversight Committee ("FRCOC"), which agree policies for managing each of these risks on an ongoing basis. Derivatives are used to mitigate the impact of these risks where appropriate.

Management anticipate that the principal risks faced by the business during the second half of 2009 will be unchanged.

Material developments

Effective 1 January 2009, the remaining business of Scottish Mutual Assurance Limited ("SMA") and Scottish Provident Limited ("SPL") was transferred to Phoenix Life Limited ("PLL") through a court sanctioned Part VII scheme. As a condition of approval of this Part VII scheme, the FSA issued a Variation of Permission ("VoP") which required £160m of capital to be ring fenced within PLL whilst it continued to query the pricing of certain derivative backed hedging agreements ("the Opal Hedge"). On 28 August 2009, discussions with the FSA on the Opal Hedge were completed and the VoP imposed on PLL was lifted thereby releasing all restrictions on the £160m of previously ring fenced capital.

MANAGEMENT REPORT (CONTINUED)

Post balance sheet events

On 2 September 2009, Liberty Acquisition Holdings (International) Company ("Liberty") acquired 100% of the Pearl Group Limited ("PGL") and Impala Holdings Limited ("Impala") groups via the acquisition of eight special purpose vehicle companies which together owned all of the issued share capital of PGL and Impala. Liberty also acquired 100% of the issued share capital of Opal Reassurance Limited ("Opal Re") through this transaction to whom certain of the Groups annuity in payment liabilities were reassured during 2007. Prior to the completion of this transaction, PGL also acquired the remainder of the minority interest holdings in Axial Investment Management Limited ("Axial") for a notional consideration of £1.

Following this acquisition, Liberty changed its name to Pearl Group and Pearl Group Limited changed its name to Pearl Group Holdings (No.2) Limited ("PGH2L").

As a part of the steps associated with the Liberty acquisition, PGH2L converted £210m of its subordinated loans in issue to Sun Capital Investments Limited ("SCIL") and Hera Investments One Limited ("HIOL") to equity by way of an issue of ordinary shares. The terms of the remaining £250m of subordinated debt were amended to increase the interest rate to current market rates. A newly incorporated company, Phoenix Life Holdings Limited ("Phoenix LHL") then issued 806 million £1 ordinary shares to SCIL and HIOL in exchange for 100% of the issued share capital of PGH2L. Phoenix LHL also issued £250m of subordinated debt jointly to SCIL and HIOL in exchange for their £250m subordinated debt receivable from PGH2L such that the debt and capital composition of Phoenix LHL mirrors that of PGH2L.

Immediately after the acquisition, Liberty injected £450m of capital into the acquired businesses. £250m of this was paid to Pearl Assurance plc ("Pearl"), £60m was paid to Opal Re, £55m was paid to Impala and £50m was used to repay loans outstanding between Pearl and PGH2L. In addition, £35m of cash was placed in a segregated account in Phoenix LHL to be drawn down as required by London Life Limited ("London Life"). This additional injection of capital strengthens the solvency of these individual life companies and also improves the Phoenix LHL Group's Capital Adequacy ("GCA") position.

Also on 2 September 2009, the FSA lifted the Own Initiative Variation of Permission ("OIVoP") which it had placed over the regulated entities within the PGH2L Group in 2008.

As an integral part of the Liberty acquisition, agreement was reached with the Trustees of the Pearl Group Pension Scheme ("the Pearl Scheme") to replace the existing funding guarantee with a schedule of cash contributions. The first cash payment from PGH2L to the Pearl Scheme of £50m will occur in September 2009 and be followed by additional cash payments of up to £25m per annum for a period of 10 years commencing on 30 September 2010.

2 September 2009 also saw effected a deed between the Group and the Royal London Mutual Insurance Society ("Royal London") in connection with adjustments to the initial consideration paid by Royal London to acquire certain of the ex Resolution plc businesses. This deed amends the original settlement terms under which liabilities of £271m plus accrued interest will be settled in full during 2009 by means of set-off of amounts receivable from Royal London.

Also integral to the transactions effected 2 September 2009 was the refinancing of the pre-existing syndicated bank and Royal London finance carried by the special purpose vehicles which directly own PGH2L and Impala. Pending this refinancing during the period, the lending banks agreed to defer the scheduled capital and interest payments due under these facilities in May 2009. Scheduled interest and capital payments due from PGH2L and Impala to these special purpose vehicles have also been deferred in the period.

As these transactions were completed in the post balance sheet period, no account has been taken of the acquisition and related capital restructuring in the results presented below for the 6 months ended 30 June 2009.

MANAGEMENT REPORT (CONTINUED)

Performance during the half year ended 30 June 2009

The Group reported a loss after taxation of £85m for the half year ended 30 June 2009 and this result is summarised below:

	Half year ended 30 Jun 09	Half year ended 30 Jun 08	Full year ended 31 Dec 08
	£m	£m	£m
Long-term business profit	46	82	100
Shareholder assets loss	(152)	(279)	(875)
Loss on ordinary activities before taxation	(106)	(197)	(775)
Taxation	21	(19)	34
Loss on ordinary activities after taxation	(85)	(216)	(741)
Minority interest	(11)	21	131
Loss for the period attributable to shareholders	(96)	(195)	(610)

The economic environment for the first six months of 2009 continued to be challenging with falls in the value of equities, fixed and variable interest securities and properties only partially being offset by increases in the value of corporate bonds following the narrowing of credit spreads in the period. These economic conditions have generated negative investment variances in the results of a number of the Group's insurance subsidiaries during the period. In addition to strains from investment experiences, the Group has proportionately increased the reserves it holds in respect of its credit default margin on its corporate bond portfolio. Recognition of such a margin is akin to a bad debt provision within reserves which has negatively affected the reported results, but has increased the gross technical provisions within the consolidated balance sheet. These strains were not experienced in 1H2008.

The long-term funds profit before tax of £46m (2008: £82m) reflects the emergence of recurring margins on the run off of business offset by strains from investment experience and reserving for credit defaults noted above. The long term fund result for the period has benefited from the release of additional reserves recognised at 31 December 2008 to address counterparty exposure to Opal Re following improvements in its solvency during the period. The long term fund result is stated before the amortisation of intangible assets associated with the Group's life business.

During the half year 2009, the shareholder assets of the Group generated a loss of £152m (2008: £(279)m). The shareholder loss is principally driven by amortisation charges of £37m on the intangible assets of goodwill and the present value of in-force business associated with the acquisition of Resolution during 2008, interest charges of £32m payable by the Group on loans to PGH2L and Impala and £36m of expenses incurred in association with the Liberty acquisition. Also included within this loss are the results of the Groups' asset management business comprising Ignis and Axial Investment Management Limited which reported a segmental profit before taxation of £7m for the period. The shareholder asset result also includes net gains of £6m from changes to the value of the contingent loans and internal capital support provided from certain shareholder funds into the long term funds. This movement in the period reflects strains from investment movements in the period partially offset by the impact of the release of additional reserves recognised at 31 December 2008 to address counterparty exposure to Opal Re following improvements in its solvency during the period. The 1H2008 shareholder loss included a one off loss of £96m for the reversal of profit recognised in 2007 by Pearl Assurance plc on its holdings of shares in Resolution plc reflecting the application of the piecemeal accounting rules referred to above.

The tax credit of £21m for the period differs from the expected tax credit of £30m (at 28% of the loss before tax of £106m) primarily reflecting the absence of tax relief on the amortisation of intangible assets.

MANAGEMENT REPORT (CONTINUED)

Performance during the half year ended 30 June 2009 (continued)

The consolidated statement of total recognised gains and losses includes £6m of actuarial gains on the Pearl Group and Resolution Group pension Schemes, £9m foreign exchange losses relating to the retranslation of the results of the foreign subsidiaries and £2m of associated deferred tax movements.

The consolidated cash flow statement of the Group shows a net shareholder cash inflow of £379m during the half year ended 30 June 2009. Included within this is a cash inflow from operating activities of £272m which includes cash backed surplus transfers from the long-term fund to the shareholder funds.

Position at 30 June 2009

Intangible assets
Included within intangible assets of £1,202m (31 December 2008: £1,243m) in the Group balance sheet are intangibles for goodwill and the present value of acquired in force long term business associated with the acquisition of the Resolution business in 2008 of £380m and £807m respectively. Impairment reviews of these assets has been completed at the balance sheet date which confirmed that the current carrying values were less than their value in use to the Group and therefore no impairment has been recognised.

Investments
Investments have reduced by £7,473m during the period to £53,699m at 30 June 2009. The reduction in investments is primarily due to net insurance cash outflows together with falls in the value of equities, fixed and variable interest securities and properties being only partially offset by increases in the value of corporate bonds following the narrowing of credit spreads in the period. In addition to this, the Group has seen a reduction in its investments following a planned contraction in its stock lending programme and from a reduction in the impact of consolidating the Ignis managed Collective Investment Schemes ("CIS") in which the policyholder long-terms funds of the Group own more than 50% (offset in the balance sheet by a corresponding movement in the net assets attributable to unit holders financial liability).

Equity shareholders' funds
The consolidated net assets of the Group at 30 June 2009 were £446m (31 December 2008: £547m). The decrease in the half year reflects the total recognised losses arising in the period of £101m.

Minority interest
Minority interests of £2,939m at 30 June 2009 principally comprises £2,229m attributable to the equity investments of Sun Capital Investments No.2 Limited ("SCI2L") and Hera Investments No.2 Limited ("HI2L") in Impala and £525m attributable to the external Pearl Group Holdings (No.1) Limited perpetual reset capital security bond holders.

Gross technical provisions
Total gross technical provisions at 30 June 2009 were £56,744m, reduced by £4,176m from the year end position. This decrease in gross technical provisions reflects an increase in long term yields during the period together with net cash insurance outflows arising as the business runs off.

Debenture loans
At 30 June 2009, the Group balance sheet carried £1,622m of debenture loans, a decrease of £88m from the 31 December 2008 position. The movement in the period reflects foreign exchange movements on the retranslation of loans denominated in Euros and US dollars.

Pension schemes
The Group operates two staff pension schemes, the Pearl Group Pension Scheme ("the Pearl Scheme") and the Resolution Group Pension Scheme ("the Resolution Scheme"). The Pearl Scheme has been valued on an FRS17 basis as at 30 June 2009 with a deficit of £133m (31 December 2008: deficit of £141m). This deficit has been recognised net of deferred tax of £37m in the consolidated balance sheet at £96m.

The Resolution Scheme has been valued on an FRS17 basis as at 30 June 2009 with a recoverable surplus of £56m (31 December 2008: recoverable surplus of £71m) which has been recognised, net of deferred tax of £16m, as an asset in the consolidated balance sheet.

MANAGEMENT REPORT (CONTINUED)

Key Performance Indicators ("KPIs")

The progress of the Group during the period is measured and monitored by the Board with reference to the following KPIs:

Customers
The directors of each insurance subsidiary review various metrics in respect of treating customers fairly ("TCF"), customer communication and complaints on a monthly basis. TCF is monitored through various TCF committees. All agreed service standards for the Group were met during the period.

The Group also operates with profit committees comprising independent and executive members to opine on issues of fairness to policyholders including ensuring policyholder monies are managed in accordance with the Group's Principles and Practices of Financial Management ("PPFM").

Regulatory capital
The aim of each insurance subsidiary within the Group is to maintain an appropriate margin of regulatory capital over capital resources requirements, both on a Pillar 1 and a Pillar 2 basis. From a Group perspective, capital is measured with reference to the Insurance Groups Directive ("IGD").

As at 30 June 2009, the free assets on a Pillar 1 basis of Pearl Assurance plc, London Life Limited, National Provident Life Limited and NPI Limited were £454m (31 December 2008: £426m), £164m (31 December 2008: £153m), £91m (31 December 2008: £59m) and £127m (31 December 2008: £104m) respectively. The free assets on a Pillar 1 basis of the acquired life businesses at 30 June 2009 were £825m for Phoenix Life Limited (31 December 2008: £426m), £318m for Phoenix and London Assurance Limited (31 December 2008: £366m), £150m for Phoenix Pensions Limited (31 December 2008: £151m), and £25m for Scottish Mutual International Limited (31 December 2008: £24m). The excess of capital over that required to be held by the Group in the IGD was £640m at the balance sheet date (31 December 2008: £351m).

Cash flows
Shareholder fund cash flows are monitored closely by the business to ensure that obligations can be met as they fall due. These shareholder fund cash flows form the basis of embedded values which are monitored on a monthly basis.

Profit after taxation and distributable reserves
The Group is dependent upon the generation of profits in its subsidiaries to support the payment of dividends. During 1H2009 the Group reported a loss after taxation attributable to shareholders of £96m (year ended 31 December 2008: loss of £610m). PGH2L paid no dividends in the period (year ended 31 December 2008: £101m). As at 30 June 2009, PGH2L had retained losses of £9m (31 December 2008: retained profits of £12m), of which £nil (31 December 2008: £nil) was considered to be distributable.

Related party transactions

As stated in note 36 to the 2008 Group Report and Accounts, the Group has a number of related parties. There have been no material changes to the transactions with these related parties during 1H2009.

STATEMENT OF DIRECTORS RESPONSIBILITIES

The Directors are responsible for preparing the interim report. We confirm to the best of our knowledge that:

- The condensed set of financial statements has been prepared in accordance with the Accounting Standards Board Statement "Half-yearly Financial Reports"
- The interim report includes a fair review of the important events that have occurred during the period and their impact on the condensed set of financial statements, as well as a description of the principal risks and uncertainties faced by the company and the undertakings included in the consolidation taken as a whole for the remaining six months of the financial year.

By order of the Board,

Simon Smith

Director

24 September 2009

INDEPENDENT REVIEW REPORT TO PEARL GROUP HOLDINGS (NO.2) LIMITED

Introduction

We have been engaged by the company to review the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2009 which comprises the Condensed Consolidated Profit and Loss Account, the Condensed Consolidated Statement of Recognised Gains and Losses, the Condensed Consolidated Balance sheet, the Condensed Consolidated Cash Flow Statement and the related notes 1 to 3. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of consolidated financial statements.

This report is made solely to the company in accordance with guidance contained in ISRE 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the accounting policies set out in note 1.

As disclosed in note 1, the annual financial statements of the company are prepared in accordance with United Kingdom Generally Accepted Accounting Practice. The condensed set of consolidated financial statements included in this half-yearly financial report has been prepared in accordance with the Accounting Standards Board Statement "Half-Yearly Financial Reports".

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of consolidated financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of a condensed set of consolidated interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of consolidated financial statements in the half-yearly financial report for the six months ended 30 June 2009 are not prepared, in all material respects, in accordance with the Accounting Standards Board Statement "Half-Yearly Financial Reports".

Ernst & Young LLP

Ernst & Young LLP
London
Date 24 September 2009

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT
Technical account for long-term business
For the half year ended 30 June 2009

	Half year ended 30 Jun 09 £m	Half year ended 30 Jun 08 £m	Full year ended 31 Dec 08 £m
Gross premiums written	834	431	1,330
Outward reinsurance premiums	(30)	(24)	(76)
Earned premiums, net of reinsurance	804	407	1,254
Investment income	1,516	946	2,763
Other technical income	170	149	473
Total technical income	2,490	1,502	4,490
Gross claims paid	(3,055)	(2,087)	(5,680)
Reinsurers' share	205	182	421
Net claims paid	(2,850)	(1,905)	(5,259)
Change in the gross and net provision for claims	35	(17)	31
Claims incurred, net of reinsurance	(2,815)	(1,922)	(5,228)
Change in gross long-term business provision			
- Change in insurance contracts	2,614	2,370	1,754
- Change in investment contracts with discretionary participation features	741	891	2,453
Change in reinsurers' share	(166)	(421)	(179)
Change in long-term business provision	3,189	2,840	4,028
Change in technical provisions for linked liabilities, net of reinsurance	267	1,043	2,665
Change in non-linked gross investment contracts without discretionary participation features	(10)	8	(2)
Change in technical provisions, net of reinsurance	3,446	3,891	6,691
Net operating expenses	(183)	(110)	(372)
Investment expenses and charges	(1,058)	(144)	(1,469)
Unrealised losses on investments	(1,794)	(3,312)	(4,339)
Other technical charges	(49)	(19)	(150)
Taxation (charge)/credit attributable to the long-term business	(42)	97	114
Transfer from the fund for future appropriations	34	75	347
Balance on the technical account – long-term business	29	58	84

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONTINUED)
Non-technical account
For the half year ended 30 June 2009

	Half year ended 30 Jun 09 £m	Half year ended 30 Jun 08 £m	Full year ended 31 Dec 08 £m
Balance on the long-term business technical account	29	58	84
Taxation attributable to balance on long-term business technical account	17	24	16
Shareholders' pre-tax profit from long-term business	46	82	100
Investment income	39	60	169
Unrealised gains/(losses) on investments	1	(167)	(417)
Investment expenses and charges	(105)	(90)	(211)
Other income	50	53	142
Other charges	(137)	(135)	(558)
Loss on ordinary activities before taxation	(106)	(197)	(775)
Taxation credit/(charge) on loss on ordinary activities	21	(19)	34
Loss on ordinary activities after taxation	(85)	(216)	(741)
Minority interest	(11)	21	131
Loss on ordinary activities attributable to shareholders	(96)	(195)	(610)

CONDENSED CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
For the half year ended 30 June 2009

	Half year ended 30 Jun 09 £m	Half year ended 30 Jun 08 £m	Full year ended 31 Dec 08 £m
Loss for the financial period	(96)	(195)	(610)
Fair value adjustment on available for sale financial assets	-	2	2
Actuarial gains/(losses) on pension schemes	6	(7)	(160)
Tax on items taken directly to equity	(2)	2	45
Foreign exchange movements	(9)	1	13
Total recognised losses arising in the period	(101)	(197)	(710)

CONDENSED CONSOLIDATED BALANCE SHEET
Assets
At 30 June 2009

	30 Jun 09	31 Dec 08
	£m	£m
Intangible assets		
Goodwill	341	345
Present value of future profits	32	36
Present value of acquired in force long-term business	814	843
Deferred origination costs	15	17
Other intangible assets	-	2
	1,202	1,243
Investments		
Land and buildings	1,655	1,787
Investments in joint venture		
- share of gross assets	720	570
- share of gross liabilities	(693)	(500)
- loans	18	18
	45	88
Investments in associates	215	286
Other financial investments	51,784	59,011
	53,699	61,172
Assets held to cover linked liabilities	10,048	10,595
Reinsurers' share of technical provisions		
Long-term business provision	6,243	6,446
Claims outstanding	243	257
Technical provisions for unit linked liabilities	9	39
	6,495	6,742
Debtors		
Debtors arising out of direct insurance operations	17	23
Debtors arising out of reinsurance operations	34	29
Other debtors	1,033	702
	1,084	754
Other assets		
Tangible assets	38	39
Cash at bank and in hand	2,270	1,850
	2,308	1,889
Prepayments and accrued income		
Accrued interest and rent	536	581
Other prepayments and accrued income	30	102
	566	683
Total assets excluding pension scheme	75,402	83,078
Pension scheme	40	51
Total assets	75,442	83,129

CONDENSED CONSOLIDATED BALANCE SHEET
Liabilities
At 30 June 2009

	30 Jun 09	31 Dec 08
	£m	£m
Capital and reserves		
Called up share capital	596	596
Subordinated loans	289	289
Foreign exchange reserve	4	13
Profit and loss account	(443)	(351)
Equity shareholders' funds	446	547
Minority interest	2,939	2,893
Fund for future appropriations	546	580
Gross technical provisions		
Long-term business provision		
- Insurance contracts	36,012	38,809
- Investment contracts with discretionary participation features	10,064	10,819
Claims outstanding	611	659
	46,687	50,287
Technical provisions for linked liabilities	10,057	10,633
	56,744	60,920
Financial liabilities		
Derivative liabilities	2,834	3,555
Non linked investment contract without discretionary participation features	251	248
Net assets attributable to unit holders	642	2,334
Obligation for repayment of collateral received	3,770	4,621
	7,497	10,758
Provision for other risks		
Other provisions	122	139
Deposits received from reinsurers	3,802	3,984
Creditors		
Creditors arising out of direct insurance operations	132	48
Creditors arising out of reinsurance operations	19	23
Debenture loans	1,622	1,710
Amounts owed to credit institutions	264	277
Other creditors including taxation and social security	1,016	917
	3,053	2,975
Accruals and deferred income	197	231
Total liabilities excluding pension scheme	75,346	83,027
Pension scheme	96	102
Total liabilities	75,442	83,129

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the half the year ended 30 June 2009

	Half year ended 30 Jun 09 £m	Half year ended 30 Jun 08 £m	Full year ended 31 Dec 08 £m
Operating activities	272	(1,220)	(765)
Returns on investments and servicing of finance	(11)	(197)	(310)
Tax	74	8	38
Capital expenditure and financial investments	-	25	(138)
Acquisitions and disposals	46	(2,986)	(2,993)
Equity dividends paid	-	(101)	(101)
Financing activities	(2)	4,303	3,770
Net cash flows available for investment	379	(168)	(499)
Cash flows were invested as follows:			
Increase in cash holdings	106	373	200
Net purchases/(sales) of investments	273	(541)	(699)
Net investment of cash flows	379	(168)	(499)

Reconciliation of loss on ordinary activities to net cash inflow/(outflow) from operating activities:

	Half year ended 30 Jun 09 £m	Half year ended 30 Jun 08 £m	Full year ended 31 Dec 08 £m
Loss on ordinary activities before taxation	(106)	(197)	(775)
Adjustments for financing expenses and items not involving movements of cash:			
Decrease in intangible assets	30	35	246
Issue costs on external borrowings	-	6	47
Depreciation on tangible fixed assets	1	1	2
Movements in debtors/creditors	4	(1,166)	(1,113)
Unrealised losses	34	130	389
Movement in pension scheme	9	(8)	(20)
Profits / (losses) relating to long-term business funds, excluding Pacific fund	264	(83)	351
Loan interest expense	55	89	190
Loan interest income	(19)	(27)	(82)
Net cash inflow / (outflow) from operating activities	272	(1,220)	(765)

NOTES TO THE ACCOUNTS

1. Financial Information

The financial statements for the half year ended 30 June 2009 were authorised by the Board of directors for issue on 23 September 2009. The financial statements are unaudited but have been reviewed by the auditors, Ernst & Young LLP.

The financial statements have been prepared in accordance with United Kingdom Generally Accepted Accounting Practice ("UKGAAP") and in accordance with the Accounting Standards Board ASB Statement: Half-yearly Financial Reports. The financial statements have been prepared using consistent accounting policies with those presented in the Report and Accounts of Pearl Group Holdings (No. 2) Limited (formerly Pearl Group Limited) for the year ended 31 December 2008. There are no measurement changes to UKGAAP effective for the 2009 financial year although a number of presentational changes will impact the 2009 full year consolidated financial statements.

The interim report does not constitute statutory accounts as defined in section 240 of the Companies Act 1985. The results for the full year 2008 have been taken from the Group's 2008 Report and Accounts and do not in themselves constitute statutory accounts. The auditor has reported on the 2008 financial statements and their report was unqualified and did not contain any statement under section 237(2) or 237(3) of the Companies Act 1985.

Following the successful completion of the Liberty transaction including the lifting of the FSA enforced OIVOP, completion of the funding agreement with the Trustees of the Pearl Group Pension Scheme and the effecting of a deed of settlement with Royal London, the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors continue to adopt the going concern basis in preparing these financial statements.

2. Segmental information

The Group comprises two segments – life and asset management. The Group has negligible overseas operations. The segmental information disclosed below includes subsidiaries and businesses acquired from their respective acquisition dates.

Half year ended 30 June 2009

	Life £m	Asset Management £m	Eliminations £m	Total £m
Segmental revenue				
Gross premiums written	834	-	-	834
Outward reinsurance premiums	(30)	-	-	(30)
Earned premiums, net of reinsurance	804	-	-	804
Fees and commissions				
- external	-	37	-	37
- internal	-	35	(35)	-
	804	72	(35)	841
Segmental(loss)/profit on ordinary activities before taxation	(92)	7	-	(85)
Corporate interest income				11
Corporate interest expense				(32)
Loss on ordinary activities before taxation				(106)

NOTES TO THE ACCOUNTS (continued)

2. Segmental information (continued)

Half year ended 30 June 2008

	Life £m	Asset Management £m	Eliminations £m	Total £m
Segmental revenue				
Gross premiums written	431	-	-	431
Outward reinsurance premiums	(24)	-	-	(24)
Earned premiums, net of reinsurance	407	-	-	407
Fees and commissions				
- external	-	14	-	14
- internal	-	22	(22)	-
	407	36	(22)	421
Segmental (loss)/profit on ordinary activities before taxation	(138)	6	-	(132)
Corporate interest income				10
Corporate interest expense				(41)
Debt issue costs and related expenses				(34)
Loss on ordinary activities before taxation				(197)

Full year ended 31 December 2008

	Life £m	Asset Management £m	Eliminations £m	Total £m
Segmental revenue				
Gross premiums written	1,330	-	-	1,330
Outward reinsurance premiums	(76)	-	-	(76)
Earned premiums, net of reinsurance	1,254	-	-	1,254
Fees and commissions				
- external	-	62	-	62
- internal	-	54	(54)	-
	1,254	116	(54)	1,316
Segmental (loss)/profit on ordinary activities before taxation	(543)	14	-	(529)
Corporate interest income				22
Corporate interest expense				(112)
Impairment of corporate debt asset				(58)
Debt issue costs and related expenses				(98)
Loss on ordinary activities before taxation				(775)

NOTES TO THE ACCOUNTS (continued)

3. Post Balance Sheet Events

On 2 September 2009, the acquisition of the Group by Liberty Acquisition Holdings (International) Company ("Liberty") was effected. Full details of this transaction are provided in the Management Report accompanying these financial statements.