

Pearl Group Holdings (No. 1) Limited

Company Registration Number: 3524909

DIRECTORS' REPORT AND CONSOLIDATED
FINANCIAL STATEMENTS
for the year ended 31 December 2011

Pearl Group Holdings (No. 1) Limited

Contents	Page
Directors' report	2
Statement of Directors' responsibilities	4
Independent Auditor's report to the members of Pearl Group Holdings (No.1) Limited	5
Consolidated income statement	6
Statement of consolidated comprehensive income	6
Statement of consolidated financial position	7
Statement of consolidated cash flows	8
Statement of consolidated changes in equity	9
Notes to the consolidated financial statements	10
Financial Statements of the Company	
Income statement	30
Statement of comprehensive income	30
Statement of financial position.....	31
Statement of cash flows.....	33
Statement of changes in equity	34
Notes to the financial statements	35

Directors' report

The Directors present their report and the financial statements of Pearl Group Holdings (No. 1) Limited ('the Company') and its subsidiary undertakings (together referred to as 'the Group'), for the year ended 31 December 2011.

The Company is incorporated in the United Kingdom as a private limited company. Its registration number is 3524909 and its Registered Office is Juxon House, 100 St. Paul's Churchyard, London, EC4M 8BU.

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

Business Review

Principal activity

The principal activity of the Group is that of an investment group. This is expected to continue to be the principal activity for the foreseeable future.

Corporate activity

During 2011 the Company acquired the entire issued share capital of PGH1 (Jersey) Limited for a consideration of £1. As the Group only formed in 2011, the comparative figures are those of the Company as there are no previous reported figures for the Group.

Result and dividends

The results of the Group for the year are shown in the consolidated income statement on page 6. The profit before tax was £158.1m (2010: £174.3m) and the total consolidated comprehensive income was £316.0m (2010: £152.1m).

Dividends totalling £459.0m (2010: £nil) and the coupon on the Perpetual Reset Capital Securities of £25.9m (2010: £65.6m) was paid during the year.

Position as at 31 December 2011

The net assets of the Group at 31 December 2011 were £3,457.3m (2010: £3,619.3m). The decrease in the period reflects total consolidated comprehensive income arising in the period of £316.0m (2010: £152.1m), the issue of share capital of £nil (2010: £0.3m) and the receipt of share premium of £nil (2010: £32.8m), offset by coupon payments, net of tax relief, on the Perpetual Reset Capital Securities of £19.0m (2010: £47.2m) and dividends paid to Impala Holdings Limited of £459.0m (2010: £nil).

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable and receivable by the Group;
- liquidity risk, exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements and this is monitored on an ongoing basis;
- credit risk, arising from the default of the counterparty to a particular financial asset and is significantly reduced as assets are primarily inter-company receivables from other Group entities; and
- longevity risk in the PGL Pension Scheme ('the Scheme'), arising from faster than expected improvements in life expectancy on the pensions of the members of the Scheme.

The Group's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

Key Performance Indicators ('KPIs')

Given the straightforward nature of the business, the Group's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Going concern

The Board has followed the UK Financial Reporting Council's 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009' when performing its going concern assessment. As part of its comprehensive assessment of whether the Group and the Company are a going concern, the Board has undertaken a review of the valuation and liquidity of its investments as at the date of preparation of the statement of consolidated financial position. The Board has also reviewed cash flow projections.

Having thoroughly considered the going concern assessment, the Board has concluded that there are no material uncertainties that may cast significant doubt about the Group and the Company's ability to continue as a going concern. The Directors have a reasonable expectation that the Group and the Company have 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.

Corporate governance statement

As a result of the Group having in issue £425.0 million of 6.5864% Perpetual Reset Capital Securities ('the Notes') which are admitted to the Official List of the UK Listing Authority and are traded on the London Stock Exchange, there is a requirement to report on the corporate governance of the Group. Details of the Notes are found under Note 14 to the consolidated financial statements.

The Group is wholly owned and controlled by Phoenix Group Holdings ('Phoenix'), which has a Premium Listing on the London Stock Exchange and is a member of the FTSE 250 Index. As part of the Phoenix Group, the Board is committed to high standards of Corporate Governance and supports the UK Corporate Governance Code as practiced by Phoenix. The Phoenix Group's Corporate Governance manual is available on the Phoenix Group's website at <http://www.thephoenixgroup.com>.

The Phoenix Board has overall responsibility for the Phoenix Group's systems of internal controls and risk management and for reviewing their effectiveness. This review is carried out annually as part of the Phoenix Group review. The Phoenix Group's systems of internal controls are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide only reasonable and not absolute assurance against material misstatement or loss.

The Phoenix Group Board monitors internal controls on a continual basis and there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Phoenix Group.

The Phoenix Group's planning and financial reporting procedures include detailed operational budgets for the year ahead and a five year rolling plan. Performance is monitored and relevant action taken throughout the year through the monthly reporting of key performance indicators (primarily cash flows), updated forecasts for the year together with information on the key risk areas.

Directors

The names of those individuals who served as Directors of the Company during the year or who held office as at the date of signature of this report are as follows:

P Miles	Appointed	1 January 2011
D Richardson	Appointed	12 December 2011
F Clutterbuck	Appointed	6 February 2012
D Cummins	Resigned	1 January 2011
J Moss	Resigned	7 February 2011
J Yates	Resigned	21 December 2011

Secretary

Pearl Group Secretariat Services Limited acted as Secretary throughout the year.

Disclosure of indemnity

Qualifying third party and pension scheme indemnity arrangements (as defined in section 234 and 235 of the Companies Act 2006) were in force for the benefit of the Directors of the Group during the year and remain in place at the date of approval of this report.

Disclosure of information to auditors

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

This confirmation is given and should be interpreted in accordance with the provisions of section 418(2) of the Companies Act 2006.

Re-appointment of auditors

In accordance with section 487 of the Companies Act 2006, the Group's auditors, Ernst & Young LLP, will be deemed to have been re-appointed at the end of the period of 28 days following circulation of copies of these financial statements as no notice has been received from members pursuant to section 488 of the Companies Act 2006 prior to the end of the accounting reference period to which these financial statements relate.

On behalf of the Board



D Richardson
Director

13 June 2012

Statement of Directors' responsibilities

The Directors are required to prepare consolidated financial statements for each accounting period that comply with the relevant provisions of the Companies Act 2006 and International Financial Reporting Standards as adopted by the European Union ('IFRS'), and which present fairly the financial performance, financial position and cash flows of the Group and Company for the accounting period. A fair presentation of the consolidated financial statements in accordance with IFRS requires the Directors to:

- select suitable accounting policies and verify they are applied consistently in preparing the consolidated financial statements on a going concern basis unless it is inappropriate to presume that the Group and Company will continue in business;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group and Company's financial position and financial performance; and
- state that the Group and Company have complied with applicable IFRSs, subject to any material departures disclosed and explained in the consolidated financial statements.

The Directors are responsible for maintaining proper accounting records which are intended to disclose with reasonable accuracy at any time the financial position of the Group and Company. They are also ultimately responsible for the systems of internal control maintained for safeguarding the assets of the Group and Company and for the prevention and detection of fraud and other irregularities.

Independent Auditor's report to the members of Pearl Group Holdings (No.1) Limited

We have audited the financial statements of Pearl Group Holdings (No.1) Limited for the year ended 31 December 2011 which comprise the Group and Parent Company Statements of Financial Position, the Group and Parent Company Statements of Comprehensive Income, the Group and Parent Company Statements of Cash Flow, the Group and Parent Company Statements of Changes in Equity and the related notes 1 to 33 and note A. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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 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 auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 4, 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 group's and the parent 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 Directors' Report and financial statements 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 group's and of the parent company's affairs as at 31 December 2011 and of the group's and the parent company's profit for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Ernst & Young LLP

George M Reid (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

15 June 2012

Pearl Group Holdings (No. 1) Limited

Consolidated income statement
for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Revenue			
Net investment income	4	171.0	198.6
Other operating income	5	2.2	39.2
Total income		173.2	237.8
Administrative expenses	6	12.8	(9.0)
Total operating expenses		12.8	(9.0)
Profit before finance costs and tax		186.0	228.8
Finance costs	10	(27.9)	(54.5)
Profit for the year before tax		158.1	174.3
Tax charge	11	(36.1)	(49.4)
Profit for the year attributable to owners		122.0	124.9

Statement of consolidated comprehensive income
for the year ended 31 December 2011

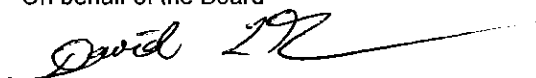
	Notes	2011 £m	2010 £m
Profit for the year		122.0	124.9
Other comprehensive income:			
Actuarial gains on defined benefit pension scheme	20	175.1	14.5
Tax credit	11	18.9	12.7
		194.0	27.2
Total comprehensive income for the year attributable to owners		316.0	152.1

Pearl Group Holdings (No. 1) Limited

Statement of consolidated financial position
as at 31 December 2011

	Notes	As at 31 December 2011 £m	As at 31 December 2010 £m
Equity attributable to owners			
Share capital	12	34.7	34.7
Share premium	13	1,574.1	1,574.1
Perpetual reset capital securities	14	496.5	496.5
Retained earnings		1,352.0	1,514.0
Total equity		3,457.3	3,619.3
Non-current liabilities			
Deferred income	15	3.9	6.1
Deferred tax	16	9.7	20.7
Total non-current liabilities		13.6	26.8
Current liabilities			
Accruals and deferred income		2.0	7.7
Deferred income	15	2.2	2.2
Amounts owed to Phoenix Group entities	17	47.0	60.6
Derivatives	18	34.1	36.9
Obligations for repayment of collateral received	19	-	11.5
Total current liabilities		85.3	118.9
Total liabilities		98.9	145.7
Total equity and liabilities		3,556.2	3,765.0
Non-current assets			
Pension scheme surplus	20	261.4	59.0
Pension reimbursement asset	20	94.1	73.7
Long-term loans to Phoenix Group entities	21	979.4	926.0
Total non-current assets		1,334.9	1,058.7
Current assets			
Short-term loans to Phoenix Group entities	22	2,122.6	2,506.0
Amounts owed by Phoenix Group entities	23	7.4	29.6
Prepayments and accrued income	24	52.1	112.2
Derivatives	18	-	18.9
Other receivables	19	36.7	-
Financial assets	25	2.2	24.4
Cash and cash equivalents	27	0.3	15.2
Total current assets		2,221.3	2,706.3
Total assets		3,556.2	3,765.0

On behalf of the Board



D Richardson
Director
13 June 2012

Pearl Group Holdings (No. 1) Limited

Statement of consolidated cash flows
for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Cash generated by operations	28	24.8	73.1
Net cash flows from operating activities		<u>24.8</u>	<u>73.1</u>
Cash flows from investing activities			
Proceeds from sale of financial assets		22.2	46.1
Repayment of borrowings by Phoenix Group entities		44.6	145.8
Collateral lodged		(48.2)	-
Issue of loans to Phoenix Group entities		-	(106.4)
Net cash flows from investing activities		<u>18.6</u>	<u>85.5</u>
Cash flows from financing activities			
Interest paid on derivatives		(32.4)	(54.5)
Coupons paid on perpetual reset securities		(25.9)	(32.8)
Repayment of collateral		-	(58.5)
Net cash flows from financing activities		<u>(58.3)</u>	<u>(145.8)</u>
Net (decrease)/increase in cash and cash equivalents		<u>(14.9)</u>	<u>12.8</u>
Cash and cash equivalents at the beginning of the year		<u>15.2</u>	<u>2.4</u>
Cash and cash equivalents at the end of the year	27	<u>0.3</u>	<u>15.2</u>
<u>Supplementary disclosures on cash flow from operating activities</u>			
Interest received		<u>69.4</u>	<u>92.1</u>

Pearl Group Holdings (No. 1) Limited

Statement of consolidated changes in equity
for the year ended 31 December 2011

	Share capital (note 12) £m	Share premium (note 13) £m	Perpetual reset capital securities (note 14) £m	Retained earnings £m	Total £m
At 1 January 2011	34.7	1,574.1	496.5	1,514.0	3,619.3
Profit for the year	-	-	-	122.0	122.0
Other comprehensive income	-	-	-	194.0	194.0
Total comprehensive income for the year	-	-	-	316.0	316.0
Dividend paid	-	-	-	(459.0)	(459.0)
2011 coupon on perpetual reset capital securities	-	-	-	(25.9)	(25.9)
Tax relief on 2011 coupon	-	-	-	6.9	6.9
At 31 December 2011	34.7	1,574.1	496.5	1,352.0	3,457.3

	Share capital (note 12) £m	Share premium (note 13) £m	Perpetual reset capital securities (note 14) £m	Retained earnings £m	Total £m
At 1 January 2010	34.4	1,541.3	496.5	1,409.1	3,481.3
Profit for the year	-	-	-	124.9	124.9
Other comprehensive income	-	-	-	27.2	27.2
Total comprehensive income for the year	-	-	-	152.1	152.1
Cancellation of listed perpetual reset capital securities	-	-	(75.0)	-	(75.0)
Issue of unlisted perpetual reset capital securities to Phoenix Group Holdings	-	-	75.0	-	75.0
Issue of shares in settlement of the 2009 deferred coupon	0.3	32.8	-	(32.8)	0.3
Tax relief on 2009 deferred coupon	-	-	-	9.2	9.2
2010 coupon on perpetual reset capital securities	-	-	-	(32.8)	(32.8)
Tax relief on 2010 coupon	-	-	-	9.2	9.2
At 31 December 2010	34.7	1,574.1	496.5	1,514.0	3,619.3

Included in retained earnings are reserves of £14.9m (2010: £471.0m) which are considered distributable.

Notes to the consolidated financial statements

1. Accounting policies

(a) Basis of preparation

The consolidated financial statements and the financial statements of the Company have been prepared on a historical cost basis except for those financial assets and financial liabilities that have been measured at fair value.

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ('IFRS').

The consolidated financial statements are presented in sterling (£) rounded to the nearest £0.1m except where otherwise stated.

Assets and liabilities are offset and the net amount reported in the statement of consolidated financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expenses are not offset in the consolidated income statement unless required or permitted by an international financial reporting standard or interpretation, as specifically disclosed in the accounting policies of the Group.

(b) Critical accounting estimates and judgements

The preparation of consolidated financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Group's business that typically require such estimates are the determination of the fair value of financial assets and liabilities, impairment of loans to Phoenix Group entities, income taxes and pension benefit assets and liabilities.

Fair value of financial assets and liabilities

The fair values of derivatives and financial assets and liabilities are classified and accounted for as set out in accounting policies (g) to (i). Where possible, derivatives and financial assets and liabilities are valued on the basis of listed market prices by reference to quoted market bid prices for assets and offer prices for liabilities, without any deduction for transaction costs. These are categorised as Level 1 financial instruments and do not involve estimates. If prices are not readily determinable, fair value is determined using valuation techniques including pricing models, discounted cash flow techniques or broker quotes. Financial instruments valued where valuation techniques are based on observable market data at the period end are categorised as Level 2 financial instruments. Financial instruments valued where valuation techniques are based on non-observable inputs are categorised as Level 3 financial instruments. Level 2 and Level 3 financial instruments therefore involve the use of estimates.

Impairment of investments in subsidiaries and loans to Phoenix Group entities

Investments in subsidiaries and loans to Group entities are subject to regular impairment reviews when management are aware of objective evidence of impairment. Impairments of investments in subsidiaries are measured at the difference between the carrying value of a particular asset and its recoverable amount. Impairments on loans are measured as the difference between the carrying value of the loan and the present value of the estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the loans original effective interest rate. Impairments are recognised in the income statement in the period in which they occur. The Company's policy in relation to impairment testing of investments in subsidiaries and loans to Phoenix Group entities is detailed in accounting policies (f) and (g) respectively.

Income taxes

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. Any judgements made, and uncertainties considered, in arriving at the carrying value of deferred tax assets and liabilities in the consolidated financial statements are discussed in note 16.

The accounting policy for income taxes (both current and deferred taxes) is discussed in more detail in accounting policy (d).

Pension benefit assets and liabilities

The valuation of pension benefit assets and liabilities is determined using actuarial valuations, which involves making assumptions about discount rates, expected return rates on assets, future salary increases, mortality rates and future pension increases. As defined benefit pension plans are long term in nature, such assumptions are subject to significant uncertainty. Details of the key assumptions used are shown in note 20.

(c) Obligations for repayment of collateral received

It is the Group's practice to obtain collateral in respect of derivative transactions, usually in the form of cash or marketable securities. Where collateral is available to the Group for investment purposes it is recognised as a financial asset and the collateral repayable is recognised as 'obligations for repayment of collateral received' in the statement of consolidated financial position. The 'obligations for repayment of collateral received' are measured at amortised cost, which in the case of cash is equivalent to cost.

(d) Income tax

Income tax comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in the statement of consolidated comprehensive income or the statement of consolidated changes in equity, in which case it is recognised in these statements.

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of financial position together with adjustments to tax payable in respect of previous years.

Deferred tax is provided for on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not provided in respect of temporary differences arising from the initial recognition of goodwill and the initial recognition of assets or liabilities in a transaction that is not a business combination and that, at the time of the transaction, affects neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates and laws enacted or substantively enacted at the period end.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(e) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

Defined benefit scheme

The net surplus or deficit in respect of the defined benefit pension scheme is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior years; that benefit is discounted to determine its present value and the fair value of any scheme assets is deducted. The discount rate is the yield at the period end on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The calculation is performed by a qualified actuary using the projected unit credit method. As required by IFRIC 14, the extent that the surplus exceeds the amount that will be utilised over the remaining life of the scheme, a deduction is made from the surplus for tax that would arise on a refund of the surplus.

The movement in the reported surplus/deficit is analysed between the service cost (recognised within administrative expenses in the consolidated income statement), the net interest gain or loss on the liabilities less the expected return on assets including any reimbursement assets (recognised within net investment income in the consolidated income statement), curtailment gains/losses (recognised within administrative expenses in the consolidated income statement) and actuarial gains and losses (recognised in the statement of consolidated comprehensive income). All actuarial gains and losses are recognised in full.

Part of the cost of changes in the longevity assumptions of the pension scheme is recoverable from certain with-profit funds of Phoenix Life Limited to the extent that cash contributions are made to the pension scheme. Recoveries are recognised when the related cash contributions are agreed with the Trustee of the pension scheme and are recognised within other operating income in the consolidated income statement.

(f) Investments in subsidiaries

Investments in shares in subsidiaries are carried in the statement of financial position at cost less impairment.

The Company assesses at each reporting date whether an investment in a subsidiary or group of investments in subsidiaries is impaired. The Company first assesses whether objective evidence of impairment exists. Evidence of impairment needs to be significant or prolonged to determine that objective evidence of impairment exists. Evidence of impairment is obtained by comparing the carrying value of the investment in the subsidiary with the recoverable amount of the subsidiary.

(g) Amounts owed by Phoenix Group entities

Amounts owed by Phoenix Group entities are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method. Gains and losses are recognised in the consolidated income statement through the amortisation process.

The Group assesses at each reporting date whether amounts owed by Phoenix Group entities are impaired. The Group first assesses whether objective evidence of impairment exists. Evidence of impairment needs to be significant or prolonged to determine that objective evidence of impairment exists. Evidence of impairment is obtained by comparing the carrying value of the amounts owed by Phoenix Group entities with the present value of the estimated future cash flows, excluding future credit losses that have not been incurred, discounted at the investments original effective interest rate.

(h) Derivatives

Derivative financial instruments are classified as held for trading. They are recognised initially at fair value and subsequently are re-measured to fair value. Exchange-traded derivatives are valued at the published bid price, or, if these are not available, by using valuation techniques such as discounted cash flow models or option pricing models. The gain or loss on re-measurement to fair value is recognised in the consolidated income statement.

Fair value estimation

The fair value of financial instruments traded in active markets such as derivatives are based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. The fair value of investments that are not traded in an active market is determined using valuation techniques such as broker quotes, pricing models or discounted cash flow techniques. Where pricing models are used, inputs are based on market related data at the period end. Where discounted cash flow techniques are used, estimated future cash flows are based on contractual cash flows using current market conditions and market calibrated discount rates and interest rate assumptions for similar instruments.

Collateral

The Group receives and pledges collateral in the form of cash in respect of derivative contracts in order to reduce the credit risk of these transactions. The amount and type of collateral required where the Group receives collateral depends on an assessment of the credit risk of the counterparty.

Collateral received in the form of cash, where the Group has contractual rights to receive the cash flows generated, is recognised as an asset in the statement of consolidated financial position with a corresponding liability for its repayment. Non-cash collateral received is not recognised in the statement of consolidated financial position, unless the counterparty defaults on its obligations under the relevant agreement.

Cash and non-cash collateral pledged where the Group retains the contractual rights to receive the cash flows generated is not derecognised from the statement of consolidated financial position, unless the Group defaults on its obligations under the relevant agreement, and therefore continues to be recognised in the statement of consolidated financial position within the appropriate asset classification.

(i) Financial assets

Purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

Loans and receivables are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. These investments are initially recognised at cost, being the fair value of the consideration paid for the acquisition of the investment. All transaction costs directly attributable to the acquisition are also included in the cost of the investment. Subsequent to initial recognition, these investments are carried at amortised cost, using the effective interest method.

(j) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and short-term deposits with an original maturity term of three months or less at the date of placement.

(k) Dividends

Final dividends on ordinary shares are recognised as a liability and deducted from equity when they are approved by the Group's owners. Interim dividends are deducted from equity when they are paid.

Dividends for the year that are approved after the reporting period are dealt with as an event after the reporting period.

Declared dividends are those that are appropriately authorised and are no longer at the discretion of the entity.

(l) Income recognition

Net investment income comprises interest, dividends, net expected return on pension scheme assets and fair value gains and losses on financial assets and amounts owed by Phoenix Group entities.

Interest income is recognised in the consolidated income statement as it accrues using the effective interest method.

Fair value gains and losses on financial assets designated at fair value through profit or loss are recognised in the consolidated income statement. Realised gains and losses are the difference between the net sale proceeds and the original cost. Unrealised gains and losses are the difference between the valuation at the period end and their valuation at the previous period end or purchase price, if acquired during the year.

(m) Finance costs

Interest payable is recognised in the consolidated income statement as it accrues and is calculated using the effective interest method.

(n) Share capital

Ordinary share capital

The Group has issued ordinary shares which are classified as equity. Incremental external costs that are directly attributable to the issue of these shares are recognised in the statement of consolidated changes in equity, net of tax.

(o) Perpetual Reset Capital Securities

The Perpetual Reset Capital Securities meet the definition of equity for accounting purposes. Accordingly, they are shown at the proceeds of issue and the coupons on the securities are recognised on the date of payment and are charged directly to the statement of consolidated changes in equity, net of tax relief.

(p) Events after the reporting period

The consolidated financial statements are adjusted to reflect significant events that have a material effect on the financial results and that have occurred between the period end and the date when the consolidated financial statements are authorised for issue, provided they give evidence of conditions that existed at the period end. Events that are indicative of conditions that arise after the period end that do not result in an adjustment to the consolidated financial statements are disclosed.

2. Financial information

The consolidated financial statements for the year ended 31 December 2011, set out on pages 6 to 35, were authorised by the Board of Directors for issue on 13 June 2012.

In preparing the financial statements the Group has adopted the following standards, interpretations and amendments which have been issued by the International Accounting Standards Board ('IASB') and have been adopted for use by the EU. None of these have a material effect on the results of the Group or the Company.

- IAS 32 *Financial Instruments: Presentation* (Amendment). The amendment alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments.
- IFRIC 14 *Prepayments of a Minimum Funding Requirement* (Amendment). The amendment permits a prepayment of future service costs in accordance with a minimum funding requirement to be recognised as a pension asset.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments*. Addresses the accounting by an entity when the terms of a financial liability are renegotiated and result in its equity instruments being issued to extinguish all or part of the financial liability.
- Annual improvements 2010. This makes a number of minor improvements to existing standards and interpretations.

The IASB has issued the following standards, interpretations and amendments which, subject to adoption for use by the EU, apply from the dates shown. The Group has decided not to early adopt any of these standards, interpretations or amendments where this is permitted. The impact on the Group of adopting them is subject to evaluation:

- IFRS 9 *Financial Instruments* (2015). These are the first two parts of a replacement standard for IAS 39 *Financial Instruments: Recognition and Measurement* and deals with the classification and measurement of financial assets and financial liabilities, including some hybrid contracts.
- Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12) (2012). This provides a practical approach to the measurement of deferred tax liabilities and assets when investment property is measured at fair value, according to whether the entity expects to recover an asset by using or selling it.

2. Financial information (continued)

- Disclosure - Transfer of Financial Assets (Amendments to IFRS 7) (2012). This revises the required disclosures to help users of financial statements evaluate the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position.
- IFRS 12 *Disclosure of Interests in Other Entities* (2013) combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities.
- IFRS 13 *Fair Value Measurement* (2013) defines fair value and sets out in a single IFRS a framework for measuring fair value.
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1) (2013). The amendment requires companies to group together items within other comprehensive income that may be reclassified to the profit or loss section of the income statement.
- IAS 19 *Employee Benefits* (Amendment) (2013). The IASB has issued numerous amendments to IAS 19. These range from fundamental changes like removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording.
- IAS 27 *Separate Financial Statements* (Revised). IAS 27 now only deals with the requirements for separate financial statements, which have been carried over largely unamended from IAS 27 *Consolidated and Separate Financial Statements*. Requirements for consolidated financial statements are now contained in IFRS 10 *Consolidated Financial Statements*.
- Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (2013). The new disclosure requirements are intended to help users of financial statements better assess the effect or potential effect of offsetting arrangements on an entity's financial position.
- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) (2014). The amendments address inconsistencies in current practice when applying the offsetting criteria in IAS 32.
- IFRS 10 *Consolidated Financial Statements* (2013) provides a single consolidation model that identifies control as the basis for consolidation for all types of entities.

In addition, the following standards, interpretations and amendments have been issued but are not currently relevant to the Group:

- IAS 28 *Investments in Associates and Joint Ventures* (Revised).
- Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1) (2012).
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine* (2013).
- IFRS 11 *Joint Arrangements* (2013).

3. Segmental analysis

The Group has one reportable segment, comprising intra-group investments. Its revenue principally comprises the interest income derived from these amounts. Information relating to this segment is included in the consolidated income statement and statement of consolidated financial position on pages 6 and 7.

Revenues from all parties is predominantly sourced in the United Kingdom.

Predominantly all non-current assets are located in the United Kingdom.

Pearl Group Holdings (No. 1) Limited

4. Net investment income

	2011	2010
	£m	£m
Investment income		
Interest income on loans and receivables	165.2	162.9
Interest income on financial assets held for trading	19.2	53.2
Net expected return on pension scheme assets	2.7	0.2
	187.1	216.3
Fair value losses		
Financial assets at fair value through profit or loss		
Held for trading - derivatives	(16.1)	(17.7)
	171.0	198.6

Interest income on loans and receivables includes interest of £165.0m (2010: £162.5m) on amounts due from other entities within the group headed by Phoenix Group Holdings ('Phoenix Group entities').

5. Other operating income

	2011	2010
	£m	£m
Release of deferred income (note 15)	2.2	2.3
Income received from pension scheme indemnity	-	36.9
	2.2	39.2

Income received from pension scheme indemnity

In accordance with an agreement dated November 2005, the with profit funds of Phoenix Life Limited have indemnified the Group in respect of contribution calls equal to their share of the costs of changes in longevity assumptions.

Completion of the 2009 triennial valuation in 2010 resulted in a recovery from the with-profit funds of £36.9 million in respect of the balance due in relation to the cost of changes in longevity assumptions determined by the previous triennial valuation.

6. Administrative expenses

	2011	2010
	£m	£m
Professional fees	2.2	5.2
Pension scheme - current service cost (note 20)	2.0	3.8
Pension scheme - curtailment gains (note 20)	(6.7)	-
Pension scheme - past service cost (note 20)	(10.3)	-
	(12.8)	9.0

Pearl Group Holdings (No. 1) Limited

7. Employee information

Employee costs comprise:

	2011	2010
	£000	£000
Wages and salaries	335	164
Social security contributions	40	20
	<u>375</u>	<u>184</u>
	2011	2010
Average number of persons employed	<u>7</u>	<u>4</u>

All employee related costs for the current and prior years were borne by a fellow subsidiary in the Phoenix Group, Pearl Group Management Services Limited.

8. Directors' remuneration

	2011	2010
	£	£
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	<u>69,633</u>	<u>99,140</u>
Share-based payments	<u>56,537</u>	<u>92,307</u>
Contributions to money purchase pension schemes	<u>6,332</u>	<u>501</u>
Number of Directors who are members of a money purchase pension scheme	<u>2</u>	<u>2</u>

The Directors were employed by either Pearl Group Management Services Limited or Pearl Group Services Limited.

For the purposes of this note an apportionment of the total remuneration paid to the Directors of the Group by the Phoenix Group has been made based on an estimate of the services rendered to the Group.

9. Auditors' remuneration

The remuneration of the auditors of the Group, including their associates, in respect of the audit of the financial statements was £0.1m (2010: £0.1m) which is borne by the Group's parent, Impala Holdings Limited.

10. Finance costs

	2011	2010
	£m	£m
Interest expense on loans and receivables	1.4	-
Interest expense on financial assets held for trading	26.5	54.5
	<u>27.9</u>	<u>54.5</u>

Interest expense on loans and receivables includes interest of £1.4m (2010: £nil) on amounts due to Phoenix Group entities.

Interest expense on financial assets held for trading includes interest payable to Phoenix Group entities on interest rate swaps of £26.5m (2010: £54.3m) and £nil of collateral interest and loan raising fees (2010: £0.2m).

Pearl Group Holdings (No. 1) Limited

11. Taxation

Current year tax charge in the consolidated income statement

	2011 £m	2010 £m
Current tax:		
UK Corporation tax	33.1	37.6
Adjustment in respect of prior years	(4.9)	(0.1)
	<u>28.2</u>	<u>37.5</u>
Deferred tax:		
Reversal/(origination) of temporary differences		
Pension scheme movements	6.8	15.3
On provisions for future expenditure	2.1	(2.7)
Effect of changes in tax rate	(1.0)	(0.7)
	<u>7.9</u>	<u>11.9</u>
Total tax charge	<u><u>36.1</u></u>	<u><u>49.4</u></u>

Tax credited to the statement of consolidated comprehensive income

	2011 £m	2010 £m
Deferred tax on actuarial gains of defined benefit schemes	<u>(18.9)</u>	<u>(12.7)</u>

Reconciliation of tax charge

The tax assessed on the profit on ordinary activities for the year is lower than the standard rate of corporation tax in the UK of 26.5% (2010: 28.0%). The differences are reconciled below:

	2011 £m	2010 £m
Profit before tax	<u>158.1</u>	<u>174.3</u>
Tax at standard UK rate of 26.5% (2010: 28.0%)	41.9	48.8
Disallowable expenses	0.1	1.4
Deferred tax rate change	(1.0)	(0.7)
Adjustments in respect of prior years	(4.9)	(0.1)
Total tax charge for the year	<u><u>36.1</u></u>	<u><u>49.4</u></u>

12. Share capital

	2011 £m	2010 £m
Issued and fully paid:		
694,108,418 (2010: 694,108,418) ordinary shares of £0.05 each	<u>34.7</u>	<u>34.7</u>

The Company's Articles of Association contain a restriction on the number of shares that may be allotted

Pearl Group Holdings (No. 1) Limited

13. Share premium

	2011 £m	2010 £m
At 1 January	1,574.1	1,541.3
Premium on shares issued in the year (note 14)	-	32.8
At 31 December	1,574.1	1,574.1

On 27 October 2010, 6,298,859 5p ordinary shares were issued at £5.26 per share giving rise to share premium of £5.21 per share.

14. Perpetual reset capital securities

	Principal outstanding		Carrying value	
	2011 £m	2010 £m	2011 £m	2010 £m
Perpetual reset capital securities	500.0	500.0	496.5	496.5

At 31 December 2011, the Company had in issue £425.0m listed and £75.0m unlisted 6.5864% Perpetual Reset Capital Securities ('the Notes'), the former are admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange.

The Notes are unsecured obligations of the Company and are subordinate to the claims of the Company's senior creditors. Payments in respect of the Notes are conditional upon the Company being solvent at the time of payment and immediately following such payment.

The Notes have no fixed maturity date and interest payments may be deferred at the option of the Company; accordingly the Notes meet the definition of equity for financial reporting purposes. The Notes also meet the conditions for Innovative Tier 1 capital treatment in the calculation of the Group Capital Resources under the rules of the Financial Services Authority ('FSA').

The Notes may be redeemed at par at the option of the Company on the first reset date of 25 April 2016 or on any coupon payment date thereafter. Redemption is subject to the agreement of the FSA. In certain circumstances the Company has the right to substitute the Notes or to redeem the Notes before the first reset date.

Coupons are payable annually in arrears on 25 April, at the rate of 6.5864% per annum, until the first reset date. Thereafter coupons are payable semi-annually at 2.73% per annum over the then prevailing offered rate for six-month sterling deposits.

If the Company opts to defer a coupon payment, then the Company has the option to either leave the coupon outstanding or satisfy the deferred coupon payment by the issue of securities ('ACSM instruments') by either the Company or a special purpose subsidiary of the Company established for the purpose of issuing ACSM instruments and which are guaranteed by the Company. The obligations of the Company in respect of such securities will be subordinated to and rank or be expressed to rank junior to the Notes as to the rights to payments and interest and participation in the assets of the Company in a winding-up and shall comply with the then current requirements of the FSA in relation to Tier 1 Capital. ACSM instruments will in the first instance be offered to related parties (as defined in the Terms and Conditions of the Notes as amended by the Supplemental Trust Deed dated 30 July 2008) and to third parties if not purchased by related parties. In the event that neither such related parties nor third parties will purchase the required ACSM instruments then Pearl Group Holdings (No. 2) Limited is required to use its best endeavours to raise such funds as are deemed necessary to purchase the required amounts of ACSM instruments.

For so long as a deferred coupon payment has not been satisfied the Company may not declare, pay or distribute a dividend on any of its securities in issue ranking junior to the Notes including the ordinary shares of the Company or any parity securities or, except in particular circumstances, redeem, purchase or otherwise acquire any of its securities in issue ranking junior to the Notes, including its ordinary shares or any parity securities.

Pearl Group Holdings (No. 1) Limited

14. Perpetual reset capital securities (continued)

On 22 April 2010, the holders of the Notes agreed to a number of amendments to the Notes including a 15% reduction in the amount of principal outstanding of the Notes, amendments to the ACSM, and the imposition of an additional restriction on the payment of dividends by Phoenix Group Holdings if future coupons are deferred. Following these amendments, the Company settled in full on 26 April 2010 the 2010 coupon due on the Notes and settled in full via the issue of ACSM instruments (6,298,859 ordinary shares) the 2009 coupon on 18 November 2010. Both coupon payments were based on the original nominal value of the Notes, being £500.0m.

On 22 April 2010 the Company also entered into a balancing instrument under which notes with a principal amount of £75.0m (equal to the amount of the reduction in principal amount of the Notes) were issued to its ultimate parent company, Phoenix Group Holdings, for no consideration. The aggregate amount of principal outstanding on the perpetual reset capital securities remains at £500.0m. The terms of such notes are substantially the same as the terms of the Notes except that they are unlisted and are subordinate to the Notes which have a reduced outstanding principal value of £425.0m and are now referred to as the senior notes.

On 26 April 2011 and 26 April 2012, the Company settled in full the 2011 and 2012 coupons due on the Notes.

15. Deferred income

	2011 £m	2010 £m
<i>Deferred income on pension scheme</i>		
As at 1 January	8.3	-
Transfer from Pearl Group Management Services Limited	-	10.6
Amounts credited to consolidated income statement	(2.2)	(2.3)
As at 31 December	<u>6.1</u>	<u>8.3</u>
Amounts due for settlement within 12 months	2.2	2.2
Amounts due for settlement after 12 months	<u>3.9</u>	<u>6.1</u>

At 1 January 2010 the deferred income provision was transferred from Pearl Group Management Services Limited to the Group as the boards of both entities have approved that the Group will recognise in full the account balances relating to the pension scheme.

The deferred income provision was established to cover the service costs, net interest costs and actuarial gains and losses of the PGL Pension Scheme which were not recoverable from the life funds of other Phoenix Group entities via per policy charges. The provision is being released in line with the terms of the related Management Services Agreement. As at 31 December 2011, the balance of the provision was £6.1m (2010: £8.3m) with £2.2m (2010: £2.3m) being released to the consolidated income statement in 2011.

16. Tax assets and liabilities

	2011 £m	2010 £m
Net deferred tax liabilities	<u>9.7</u>	<u>20.7</u>
<i>Deferred tax assets comprise:</i>		
	2011 £m	2010 £m
Accelerated capital allowances	(0.3)	(0.3)
Provisions and other temporary differences	(2.3)	-
Gross deferred tax assets	<u>(2.6)</u>	<u>(0.3)</u>
Less: offset against deferred tax liabilities	2.6	0.3
Net deferred tax assets	<u>-</u>	<u>-</u>

Pearl Group Holdings (No. 1) Limited

16. Tax assets and liabilities (continued)

Deferred tax liabilities comprise

	2011 £m	2010 £m
Pension scheme surplus	12.3	19.7
Provisions and other temporary differences	-	1.3
Gross deferred tax liabilities	<u>12.3</u>	<u>21.0</u>
Less: offset against deferred tax assets	(2.6)	(0.3)
Net deferred tax liabilities	<u>9.7</u>	<u>20.7</u>

Movements in deferred tax liabilities comprise:

	2011 £m	2010 £m
At 1 January	20.7	16.4
Amounts charged to the consolidated income statement	7.9	11.9
Amounts credited to the statement of consolidated comprehensive income	(18.9)	(12.7)
Other movements	-	5.1
At 31 December	<u>9.7</u>	<u>20.7</u>

Deferred income tax assets are recognised for tax purposes only to the extent that realisation of the related tax benefit is probable.

A gradual reduction in the UK corporation tax rate from 28% to 24% over four years was announced in the Emergency Budget of 22 June 2010 with further 1% reductions being announced in each of the Budgets of 23 March 2011 and 21 March 2012. The first 3% of the reductions had been substantively enacted by the year end. Consequently a rate of 25% has been used for the purposes of providing deferred tax in these consolidated financial statements. Further reductions are to be introduced by future legislation. The benefit to the Group's net assets arising from the further 3% reduction of rate is estimated as £1.2 million in total and will be recognised as the legislation is substantively enacted.

17. Amounts owed to Phoenix Group entities

	2011 £m	2010 £m
Group relief payable	33.7	20.8
Short-term intra-group borrowings	13.3	39.8
Total amounts owed to Phoenix Group entities	<u>47.0</u>	<u>60.6</u>

All amounts are due to be settled within 12 months.

18. Derivatives

	2011 £m	2010 £m
Derivative liability	<u>34.1</u>	<u>36.9</u>
Derivative asset	<u>-</u>	<u>18.9</u>

The derivative assets and liabilities are to hedge the exposure to interest rate movements.

18. Derivatives (continued)

The derivative liability of £34.1m (2010: £18.0m) has a termination date of 31 October 2013 and is categorised as level 2 financial instruments as it's fair value is determined using a valuation technique based on observable market data at the year end.

In 2010 there was a derivative asset and a derivative liability of £18.9m; these had a termination date of 14 May 2011 and were categorised as level 2 financial instruments.

There were no transfers between level 1 and level 2 instruments during the year (2010: nil).

19. Collateral lodged / (held)

	2011 £m	2010 £m
Carrying value At 31 December	36.7	(11.5)
Amount due for settlement within 12 months	36.7	(11.5)

The Group pays and receives cash on the collateral arrangements under its derivative obligations.

20. Pension scheme

The PGL Pension Scheme ('the Scheme') comprises a final salary section and a defined contribution section.

Defined contribution scheme

Contributions in the year amounted to £2.0m (2010: £4.0m).

Defined benefit scheme

The Company and a fellow subsidiary undertaking of Impala Holdings Limited, Pearl Group Management Services Limited, are joint sponsoring employers of the Scheme.

The defined benefit section of the Scheme is a final salary arrangement, which is closed to new entrants.

The valuation has been based on an assessment of the liabilities of the Scheme as at 31 December 2011, undertaken by independent qualified actuaries.

In June 2011, the Scheme signed a deed of amendment to the defined benefit scheme, which closed the scheme to future accrual by active members with effect from 1 July 2011. Thus, the active members become deferred members of the scheme and their future service will not qualify for benefits under the scheme. As a result of this, the Company has recognised curtailment gains, relating to a release from future liabilities, of £6.7m, which has been recognised in the consolidated income statement for the year.

In November 2011, following formal consultation, the Group carried out a pension increase exchange exercise where existing in-scope pensioners were offered the option to exchange future non-statutory pension increases for benefits accrued before 6 April 1997 for a higher, non increasing pension, thereby reducing longevity and inflation risk for the Group. The offer period for this exercise ended on 3 January 2012. The financial effects of all acceptances received up to 31 December 2011 have been reflected as a settlement gain of £10.3m in the current year. The effect has been to reduce the Scheme liabilities by £10.3m. The cost of the incentive offered to members who accepted the enhanced transfer value has been borne by the Company, a joint sponsoring employer of the Scheme.

The present values of the defined benefit obligation and the related current service costs have been measured using the projected unit credit method.

A triennial valuation of the Scheme as at 30 June 2009 was completed in September 2010. This showed a deficit on the funding basis as at 30 June 2009 of £255.2m. Following discussions with the Trustee of the Scheme it was agreed that new cash contributions to the scheme amounting to £159.5m would be paid over the period from September 2010 to August 2017. Together with the outstanding contributions of £27.5m due to the scheme as at the end of August 2010 following the previous triennial valuation, the total future contributions amounted to £187.0m.

20. Pension scheme (continued)

In accordance with an agreement dated November 2005, certain of the with-profit funds of Phoenix Life Limited have indemnified the Company in respect of contribution calls equal to their share of the costs of changes in longevity assumptions. Completion of the triennial valuation in 2010 resulted in a recovery from the with-profit funds of £36.9m, together with interest, in respect of the balance due in relation to the cost of changes in longevity assumptions determined by the previous triennial valuation.

The principal financial assumptions of the Scheme are set out below:

	2011	2010
Rate of general long-term increase in salaries	n/a	4.45%
Rate of increase in pensions in payment	3.00%	3.30%
Rate of increase for deferred pensions (CPI)	2.10%	2.95%
Discount rate	4.90%	5.40%
Inflation – RPI	3.10%	3.45%
Inflation – CPI	2.10%	2.95%
Expected rate of return on scheme assets	3.90%	5.10%

The discount rate and inflation assumptions used for the calculation of the liabilities have been determined by considering the shape of the appropriate yield curves and the duration of the Scheme liabilities. This method determines an equivalent single rate for both the discount and inflation rates, which is derived from the profile of projected benefit payments.

The expected rate of return on scheme assets is derived after considering historical returns and assuming that asset classes with higher volatility generate higher returns (consistent with widely accepted capital market principles). The overall expected return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation.

It has been assumed that post-retirement mortality is in line with standard tables PNA00 with a scaling factor of 105% being applied, allowing for future improvements in line with the long cohort improvement factors, subject to a minimum improvement from 2007 onwards of 1.25% p.a. and 0.75% p.a. for males and females respectively. Under these assumptions, the average life expectancy from retirement for a member currently aged 40 retiring at age 60 is 31.2 years and 32.3 years for male and female members respectively.

The economic value of the Scheme assets net of tax on the surplus available as a refund as at 31 December 2011 amounted to £1,588.6m (2010: £1,325.4m) and the economic value of the surplus amounted to £355.5m (2010: £132.7m). For financial reporting purposes the carrying value of the insurance policies affected by the Scheme with the Phoenix Group ('Reimbursement asset') have been separately identified, resulting in reported assets of the Scheme as at 31 December 2011 of £1,494.5m (2010: £1,251.7m) and a reported surplus of £261.4m (2010: £59.0m).

The amounts recognised in the consolidated income statement are as follows:

	2011	2010
	£m	£m
Current service cost	(2.0)	(3.8)
Past service cost	10.3	-
Expected return on scheme assets	65.7	63.4
Interest cost	(63.0)	(63.2)
Curtailement gain	6.7	-
	17.7	(3.6)

Pearl Group Holdings (No. 1) Limited

20. Pension scheme (continued)

The net actuarial gains and losses recognised in the statement of consolidated comprehensive income comprise the following:

	2011 £m	2010 £m
Actual return less expected return on scheme assets	347.3	89.0
Experience loss arising on scheme liabilities	(14.7)	(23.1)
Loss due to changes in assumptions underlying scheme liabilities	(24.8)	(19.2)
	<u>307.8</u>	<u>46.7</u>
Change in provision for tax on the economic surplus available as a refund	(132.7)	(32.2)
Actuarial gains	<u>175.1</u>	<u>14.5</u>

The cumulative net actuarial gains recognised in the statement of consolidated comprehensive income since 1 January 2009 amounted to a gain of £38.1m (2010: £137.0m loss).

The surplus recognised in the statement of consolidated financial position is as follows:

	2011 £m	2010 £m
Fair value of scheme assets, net of reimbursement asset	1,494.5	1,251.7
Present value of defined benefit obligation	(1,233.1)	(1,192.7)
Surplus	<u>261.4</u>	<u>59.0</u>

The actual return on the scheme assets comprises the following:

	2011 £m	2010 £m
Expected return on scheme assets	65.7	63.4
Actual return less expected return on scheme assets	347.3	89.0
	<u>413.0</u>	<u>152.4</u>

The change in the present value of the defined benefit obligation is as follows:

	2011 £m	2010 £m
At 1 January	1,192.7	1,129.9
Current service cost	2.0	3.8
Past service cost	(10.3)	-
Curtailement gains	(6.7)	-
Interest cost	63.0	63.2
Actuarial losses	39.5	42.3
Benefits paid	(47.1)	(46.5)
At 31 December	<u>1,233.1</u>	<u>1,192.7</u>

Pearl Group Holdings (No. 1) Limited

20. Pension scheme (continued)

The change in the fair value of the scheme assets is as follows:

	2011 £m	2010 £m
At 1 January	1,251.7	1,192.2
Expected return on scheme assets	65.7	63.4
Actuarial gain on scheme assets	347.3	89.0
Contributions by the employer	30.0	59.5
Benefits paid	(47.1)	(46.5)
At 31 December	<u>1,647.6</u>	<u>1,357.6</u>
Movement in reimbursement asset – insurance policies held with related parties	(20.4)	(73.7)
Provision for tax on the surplus available as a refund	(132.7)	(32.2)
At 31 December, net of reimbursement asset and tax on the surplus	<u>1,494.5</u>	<u>1,251.7</u>

The distribution of the scheme assets at the end of the year was as follows:

	2011 £m	2010 £m
Insured pensions	24.2	23.6
Bonds	1,512.5	1,178.3
Properties	116.8	123.2
Cash and other	100.0	32.5
	<u>1,753.5</u>	<u>1,357.6</u>
Reimbursement asset – insurance policies held with related parties	(94.1)	(73.7)
Provision for tax on the surplus available as a refund	(164.9)	(32.2)
At 31 December, net of reimbursement asset and tax on the surplus	<u>1,494.5</u>	<u>1,251.7</u>

Contributions totalling £30.0m are expected to be paid into the scheme in 2012.

The pension scheme has rights under non-qualifying insurance policies issued by Phoenix Group entities, and are therefore disclosed separately from the other plan assets. The fair value of the rights under these contracts are:

	2011 £m	2010 £m
Reimbursement asset – insurance policies held with related parties	<u>94.1</u>	<u>73.7</u>

Table of historical information:

	2011 £m	2010 £m	2009 £m
Fair value of scheme assets	1,494.5	1,251.7	1,192.2
Defined benefit obligation	(1,233.1)	(1,192.7)	(1,129.9)
Surplus	<u>261.4</u>	<u>59.0</u>	<u>62.3</u>
Experience gains on scheme assets	<u>347.3</u>	<u>89.0</u>	<u>50.0</u>
Experience (losses)/gains on scheme liabilities	<u>(14.7)</u>	<u>(23.1)</u>	<u>13.2</u>

Pearl Group Holdings (No. 1) Limited

21. Long-term loans to Phoenix Group entities

	2011 £m	2010 £m
(i) Impala Holdings Limited	848.4	815.8
(ii) Impala Holdings Limited	16.6	-
(iii) Pearl Life Holdings Limited	62.8	60.4
(iv) Pearl Life Holdings Limited	51.6	49.8
Total long-term loans and receivables	979.4	926.0

- (i) On 1 August 2008 the Group provided a loan to Impala Holdings Limited of £736.3m. The loan accrues interest at six month LIBOR plus a margin of 2.94% which is capitalised semi-annually on 7 April and 7 October. Interest of £32.6m (2010: £14.7m) was capitalised during the year. The loan has a maturity date of 31 December 2016.
- (ii) On 7 April 2011 the interest that accrued on loan (i) for the period 7 October 2010 to 6 April 2011 of £16.3m was converted into a new loan. The balance accrues interest at six month LIBOR plus a margin of 2.94% which is capitalised semi-annually on 7 April and 7 October. Interest of £0.3m (2010: £nil) was capitalised in the year. The outstanding balance has a maturity date of 31 December 2016.
- (iii) On 4 December 2008 the Group provided a loan to Pearl Life Holdings Limited ('PLHL') of £55.0m. The loan accrues interest at six month LIBOR plus a margin of 2.94% which is capitalised semi-annually on 7 April and 7 October. Interest of £2.4m (2010: £2.3m) was capitalised during the year. The loan has a maturity date of 31 December 2016 or can be repaid as agreed between the borrower and the Group.
- (iv) On 26 September 2008 the Group provided a loan to PLHL of £45.0m. The loan accrues interest at 12 month LIBOR plus a margin of 2.00% which is capitalised annually on 31 December. Interest of £1.8m (2010: £1.6m) was capitalised during the year. The loan has a maturity date of 31 December 2016 or can be repaid as agreed between the borrower and the Group.

The carrying value of these loans approximates to their fair value.

22. Short-term loans to Phoenix Group entities

	2011 £m	2010 £m
(i) Impala Holdings Limited	1,970.2	1,926.3
(ii) Impala Holdings Limited	14.7	52.6
(iii) Impala Holdings Limited	43.0	-
(iv) Pearl Life Holdings Limited	32.0	-
(v) Pearl Life Holdings Limited	6.7	6.7
(vi) Pearl Life Holdings Limited	-	459.0
(vii) Pearl Life Holdings Limited	-	5.4
(viii) Pearl Group Management Services	56.0	56.0
Total short-term loans and receivables	2,122.6	2,506.0

- (i) On 31 December 2008 the Group disposed of the entire issued share capital of its investments in subsidiaries to Impala Holdings Limited ('Impala'). £1,842.0m was left outstanding as an interest bearing intra-group loan. The loan accrues interest at 6 month LIBOR plus a margin of 3.42% which is settled semi-annually on 30 June and 31 December. Interest of £42.7m (2010: £32.9m) was paid, interest of £43.9m (2010: £7.6m) was capitalised and interest of £nil (2010: £43.0m) was converted to new loans during the year. The loan is repayable upon demand but has a final maturity date of December 2016.
- (ii) In 2008, the Group entered into an agreement with Impala and Pearl Life Holdings Limited ('PLHL') whereby from 1 May 2008, any of those parties could lend to or borrow from each other as agreed. During the year, under this agreement, the Group lent £42.7m (2010: £32.9m) to Impala and received repayments of £83.2m (2010: £41.3m). Interest on these loans accrues at six month LIBOR plus a margin of 2.94% which is capitalised semi-annually on 7 April and 7 October. Interest of £2.6m (2010: £2.4m) was capitalised during the year.
- (iii) On 1 January 2011, the interest accrued on loan (i) for the period 1 July 2010 to 31 December 2010 of £43.0m was converted into a new loan which retains the same terms and conditions as the previous loan. Interest of £1.9m has been accrued during the year.

Pearl Group Holdings (No. 1) Limited

22. Short-term loans to Phoenix Group entities (continued)

- (iv) On 1 January 2011, the interest accrued on loan (vi) for the period 1 July 2010 to 31 December 2010 of £32.0m was converted into a new loan which retains the same terms and conditions as the previous loan. Interest of £2.2m has been accrued during the year.
- (v) At 31 December 2011, the balance of the £2,943.0m loan facility issued to PLHL on 31 August 2006 remained at £6.7m (2010: £6.7m). Interest accrues at 12 month LIBOR plus a margin of 1.00% and £0.2m was accrued during the year (2010: £0.2m). The loan is repayable on demand.
- (vi) In November 2005, the Group granted a loan of £459.0m to PLHL. Interest is calculated at 7% per annum and is payable annually on 31 December. On 20 December 2011 the principle and the right to future interest was transferred to Impala via a dividend in specie.
- (vii) Under the agreement noted in (ii) above, during the year the Group lent £4.6m (2010: £0.2m) to PLHL and received repayments of £83.4m (2010: £25.1m) which created a loan liability. Interest on these loans accrues at six month LIBOR plus a margin of 2.94% which is capitalised semi-annually on 7 April and 7 October. Interest of £0.1m (2010: £0.8m) was capitalised during the year on the loan asset and £1.4m (2010: £nil) on the liability. The loan liability of £74.7m was settled in 2011.
- (viii) In September 2007, the Group granted a revolving credit facility of £110.0m to Pearl Group Management Services Limited. During the year there has been no further drawn down (2010: £nil) and as at 31 December 2011 the total drawn down balance is £56.0m. Interest is accrued at six month LIBOR plus a margin of 2.00%. Repayment of the loan is subject to one month's written notice and a number of detailed provisions.

The carrying value of these loans approximates to their fair value. Certain prior year disclosures in note 22 have been amended to conform to current year presentation.

23. Amounts owed by Phoenix Group entities

	2011 £m	2010 £m
Phoenix Customer Care Limited	1.3	1.2
Scottish Mutual Customer Care Limited	0.3	0.3
Phoenix Life Limited – 2006 triennial valuation – note 20	5.8	21.3
Phoenix Life Limited – 2009 triennial valuation – note 20	-	6.8
	7.4	29.6
Total amounts owed by Phoenix Group entities	7.4	29.6

24. Prepayments and accrued income

	2011 £m	2010 £m
Accrued interest	52.1	112.2

25. Financial assets

	2011 £m	2010 £m
Financial assets at fair value through profit or loss		
Collective investment schemes	2.2	24.4

All amounts are recoverable within 12 months.

26. Financial instrument fair value hierarchy

The collective investment schemes are categorised as Level 1 financial instruments. The fair value of Level 1 financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the period end. The quoted market price used for financial assets is the current bid price on the trade date. If the bid price is unavailable a 'last traded' approach is adopted. For units in unit trusts and shares in open ended investment companies, fair value is by reference to published bid values.

The derivative assets are categorised as level 2 financial instruments as their fair value is determined using a valuation technique based on observable market data at the year end.

There were no transfers between level 1 and level 2 instruments during the year (2010: nil).

There were no level 3 financial instruments in 2011 or 2010.

27. Cash and cash equivalents

	2011 £m	2010 £m
Bank and cash balances	<u>0.3</u>	<u>15.2</u>

All deposits are subject to fixed interest rates. The carrying amounts approximate to fair value at the period end.

28. Cash flows from operating activities

	2011 £m	2010 £m
Profit for the year before tax	158.1	174.3
Adjustments to reconcile profit for the year to net cash inflow from operating activities in respect of:		
Net investment income	(115.0)	(124.0)
Finance costs	27.9	54.5
Other operating income	(2.2)	(2.3)
Pension scheme charged to income statement	(17.7)	3.6
Unrealised loss on financial instruments	16.1	17.7
Changes in operating assets and liabilities	(42.4)	(50.7)
Cash generated by operations	<u>24.8</u>	<u>73.1</u>

29. Capital and risk management

The Group's capital comprises share capital and all reserves. At 31 December 2011 total capital was £3,457.3m (2010: £3,619.3m). The decrease in the period reflects total consolidated comprehensive income arising in the period of £316.0m (2010: £152.1m), the issue of share capital of £nil (2010: £0.3m) and the receipt of share premium of £nil (2010: £32.8m), offset by coupon payments, net of tax relief, on the Notes of £19.0m (2010: £47.2m) and dividends paid to Phoenix Group entities of £459.0m (2010: £nil).

There are no externally imposed capital requirements on the Group. The Group's capital is monitored by the Directors and managed on an on-going basis via a monthly close process to ensure that it remains positive at all times.

29. Capital and risk management (continued)

The principal risks and uncertainties facing the Group are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable and receivable by the Group. An increase of 1% in interest rates, all other variables held constant, would result in an increase in the profit after tax in respect of a full financial year and in equity of £46.8m (2010: £32.0m). A decrease of 1% in interest rates with all other variables held constant would result in an additional loss after tax in respect of a full financial year and in equity of £46.8m (2010: £32.0m).
- liquidity risk, exposure to liquidity risk as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements and this is monitored on an ongoing basis;
- credit risk, arising from the default of the counterparty to a particular financial asset and is significantly reduced as assets are primarily inter-company receivables from other Phoenix Group entities; and
- longevity risk in the PGL Pension Scheme ('the Scheme'), arising from faster than expected improvements in life expectancy on the pensions of the members of the Scheme.

The Group's exposure to all these risks is monitored by the Directors, who agree policies for managing each of these risks on an ongoing basis.

30. Related party transactions

The Group enters into transactions with related parties in its normal course of business. These are at arm's length on normal commercial terms, apart from the issue in 2010, of the Notes to its ultimate parent undertaking for no consideration – see note 14. The Group has also guaranteed the performance of guarantees issued by fellow members of the Phoenix Group – see note 31.

In the year ended 31 December 2011, the Group earned interest on loans to its parent of £125.6m (2010: £117.0m) and interest of £39.4m (2010: £45.5m) on loans to fellow Phoenix Group entities. The Group incurred interest of £1.4m (2010: £nil) on loans to fellow Phoenix Group entities. The Group was party to two derivative contracts with two fellow Phoenix Group entities which matured in the year. During the year, the Group incurred interest under these contracts of £19.3m (2010: £54.3m).

Amounts due to related parties

	2011 £m	2010 £m
Other amounts due to Phoenix Group entities	47.0	98.0

Amounts due from related parties

	2011 £m	2010 £m
Loans due from parent	2,892.9	2,794.7
Loans due from Phoenix Group entities	209.1	637.3
Other amounts due from Phoenix Group entities	7.4	29.6

Key management compensation

The total compensation allocated to the Group and payable to employees classified as key management, which comprises the Directors, is disclosed in note 8.

Parent and ultimate parent entity

Information on the Group's parent and ultimate parent is given in note 33.

31. Guarantees

The Company has guaranteed the performance of a guarantee given by Pearl Life Holdings Limited to the Trustees of the PGL Pension Scheme ('the Scheme') in respect of the obligations and liabilities of the participating employers to make payments to the Scheme. The principal obligations that are subject to the guarantee are cash contributions totalling £107.5m (2010: £137.5m), which are payable in instalments over the period to August 2017.

The Company has guaranteed the obligations of Pearl Group Management Services Limited, a fellow subsidiary of the Phoenix Group, in respect of its performance to certain life companies in the Phoenix Group under a master services agreement, dated 21 December 2005.

32. Subsidiaries

The principal subsidiary of the Group is PGH1 (Jersey) Limited, a company incorporated and with its principal place of operation in Jersey.

33. Other information

The Group's principal place of business is the United Kingdom. The Group's immediate parent is Impala Holdings Limited and its ultimate parent is Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in Jersey. A copy of the financial statements of Phoenix Group Holdings can be obtained from the Company Secretary, 1st Floor, 32 Commercial Street, St Helier, Jersey, JE2 3RU.

Pearl Group Holdings (No. 1) Limited – Financial Statements of the Company

Income statement

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Revenue			
Net investment income	4	171.0	198.6
Other operating income	5	2.2	39.2
Total income		173.2	237.8
Administrative expenses	6	12.8	(9.0)
Total operating expenses		12.8	(9.0)
Profit before finance costs and tax		186.0	228.8
Finance costs	10	(27.9)	(54.5)
Profit for the year before tax		158.1	174.3
Tax charge	11	(36.1)	(49.4)
Profit for the year attributable to owners		122.0	124.9

Statement of comprehensive income

for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Profit for the year		122.0	124.9
Other comprehensive income:			
Actuarial gains on defined benefit pension scheme	20	175.1	14.5
Tax credit	11	18.9	12.7
		194.0	27.2
Total comprehensive income for the year attributable to owners		316.0	152.1

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 10 to 13. The notes identified alphabetically on page 35 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 10 to 29.

Pearl Group Holdings (No. 1) Limited – Financial Statements of the Company

Statement of financial position
as at 31 December 2011

	Notes	As at 31 December 2011 £m	As at 31 December 2010 £m
Equity and liabilities			
Equity attributable to owners			
Share capital	12	34.7	34.7
Share premium	13	1,574.1	1,574.1
Perpetual reset capital securities	14	496.5	496.5
Retained earnings		1,352.0	1,514.0
Total equity		3,457.3	3,619.3
Non-current liabilities			
Deferred income	15	3.9	6.1
Deferred tax	16	9.7	20.7
Total non-current liabilities		13.6	26.8
Current liabilities			
Accruals and deferred income		2.0	7.7
Deferred income	15	2.2	2.2
Amounts owed to Phoenix Group entities	17	47.0	60.6
Derivatives	18	34.1	36.9
Obligations for repayment of collateral received	19	-	11.5
Total current liabilities		85.3	118.9
Total liabilities		98.9	145.7
Total equity and liabilities		3,556.2	3,765.0

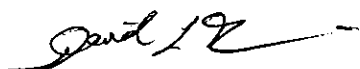
Where applicable, the accounting policies of the Company are the same as those of the Group on pages 10 to 13. The notes identified alphabetically on page 35 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 10 to 29.

Pearl Group Holdings (No. 1) Limited – Financial Statements of the Company

Statement of financial position (continued)
as at 31 December 2011

	Notes	As at 31 December 2011 £m	As at 31 December 2010 £m
Assets			
Non-current assets			
Pension scheme surplus	20	261.4	59.0
Pension reimbursement asset	20	94.1	73.7
Investments in subsidiaries	A	-	-
Long-term loans and receivables	21	979.4	926.0
Total non-current assets		1,334.9	1,058.7
Current assets			
Short-term loans and receivables	22	2,122.6	2,506.0
Amounts owed by Phoenix Group entities	23	7.4	29.6
Prepayments and accrued income	24	52.1	112.2
Derivatives	18	-	18.9
Other receivables	19	36.7	-
Financial assets	25	2.2	24.4
Cash and cash equivalents	27	0.3	15.2
Total current assets		2,221.3	2,706.3
Total assets		3,556.2	3,765.0

On behalf of the Board



D Richardson
Director
13 June 2012

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 10 to 13. The notes identified alphabetically on page 35 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 10 to 29.

Pearl Group Holdings (No. 1) Limited – Financial Statements of the Company

Statement of cash flows
for the year ended 31 December 2011

	Notes	2011 £m	2010 £m
Cash flows from operating activities			
Cash generated by operations	28	24.8	73.1
Net cash flows from operating activities		24.8	73.1
Cash flows from investing activities			
Proceeds from sale of financial assets		22.2	46.1
Repayment of borrowings by Phoenix Group entities		44.6	145.8
Collateral lodged		(48.2)	-
Issue of loans to Phoenix Group entities		-	(106.4)
Net cash flows from investing activities		18.6	85.5
Cash flows from financing activities			
Interest paid on derivatives		(32.4)	(54.5)
Coupons paid on perpetual reset securities		(25.9)	(32.8)
Repayment of collateral		-	(58.5)
Net cash flows from financing activities		(58.3)	(145.8)
Net increase in cash and cash equivalents		(14.9)	12.8
Cash and cash equivalents at the beginning of the year		15.2	2.4
Cash and cash equivalents at the end of the year	27	0.3	15.2
<u>Supplementary disclosures on cash flow from operating activities</u>			
Interest received		69.4	92.1

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 10 to 13. The notes identified alphabetically on page 35 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 10 to 29.

Pearl Group Holdings (No. 1) Limited – Financial Statements of the Company

Statement of changes in equity
for the year ended 31 December 2011

	Share capital (note 12) £m	Share premium (note 13) £m	Perpetual reset capital securities (note 14) £m	Retained earnings £m	Total £m
At 1 January 2011	34.7	1,574.1	496.5	1,514.0	3,619.3
Profit for the year	-	-	-	122.0	122.0
Other comprehensive income	-	-	-	194.0	194.0
Total comprehensive income for the year	-	-	-	316.0	316.0
Dividend paid	-	-	-	(459.0)	(459.0)
2011 coupon on perpetual reset capital securities	-	-	-	(25.9)	(25.9)
Tax relief on 2011 coupon	-	-	-	6.9	6.9
At 31 December 2011	34.7	1,574.1	496.5	1,352.0	3,457.3

	Share capital (note 12) £m	Share premium (note 13) £m	Perpetual reset capital securities (note 14) £m	Retained earnings £m	Total £m
At 1 January 2010	34.4	1,541.3	496.5	1,409.1	3,481.3
Profit for the year	-	-	-	124.9	124.9
Other comprehensive income	-	-	-	27.2	27.2
Total comprehensive income for the year	-	-	-	152.1	152.1
Cancellation of listed perpetual reset capital securities	-	-	(75.0)	-	(75.0)
Issue of unlisted perpetual reset capital securities to Phoenix Group entity	-	-	75.0	-	75.0
Issue of shares in settlement of the 2009 deferred coupon	0.3	32.8	-	(32.8)	0.3
Tax relief on 2009 deferred coupon	-	-	-	9.2	9.2
2010 coupon on perpetual reset capital securities	-	-	-	(32.8)	(32.8)
Tax relief on 2010 coupon	-	-	-	9.2	9.2
At 31 December 2010	34.7	1,574.1	496.5	1,514.0	3,619.3

Included within retained earnings of £1,352.0m are £1,337.1m of non-distributable reserves (2010: £1,043.0m).

Where applicable, the accounting policies of the Company are the same as those of the Group on pages 10 to 13. The notes identified alphabetically on page 35 are an integral part of these separate financial statements. Where the same items appear in the Group financial statements, reference is made to the notes (identified numerically) on pages 10 to 29.

Pearl Group Holdings (No. 1) Limited – Financial Statements of the Company

Notes to the financial statements

A. Investments in subsidiaries

	2011 £m	2010 £m
Cost		
At 1 January	-	-
Additions	0.0	-
At 31 December	<u>0.0</u>	<u>-</u>

On 4 November 2011, the Company acquired the entire issued share capital of PGH1 (Jersey) Limited, a company incorporated and with its principal place of operation in Jersey, for consideration of £1.