



The **Trustee's report**
to members
for the year ended
31 December 2006

Pearl Group
Staff Pension Scheme



Changes to the Scheme

There has been no change to the structure of the Scheme during 2006. In the year under review, two amendments were made to the Scheme's Rules concerning pension scheme benefits post A-Day and the introduction of new anti-age discrimination legislation.

Increase in Money Purchase credits

The Rules of the Money Purchase section of the Pearl Group Staff Pension Scheme allow for the Company to vary the Employer Credits to reflect any changes in the level of Employers National Insurance rebate for members of contracted-out pension schemes.

This rebate increased from 3.5% to 3.7% with effect from April 2007 and, following a request by the Trustee Directors, the Company has agreed to increase the Employer Credits for Money Purchase section members under the above rule by 0.2% of pensionable salary. With effect from June 2007 the standard rate of money purchase credits is therefore 10.7% (increasing to 11.7% from the April following the money purchase member's 45th birthday).

Escrow payments

In April 2005, the Company established an 'Escrow' account for the benefit of the Scheme.

Following a Trustee re-assessment of the Scheme after the de-merger, the Trustee triggered the first payment of £9.7 million per annum from the Escrow account during 2005 and a second payment of £9.7 million was made during 2006. These payments will continue each year until the Escrow account is exhausted, or 2009 if earlier. The Company has also agreed to make annual payments for the calendar years 2010 to 2014 inclusive.

Pension increases

The Pearl Group Staff Pension Scheme operates a system of guaranteed pension increases. In accordance with the Scheme Rules, pensions in payment were increased by 2.4% on 1 April 2006 (3.2% on 1 April 2005). Deferred pensions were increased in line with the relevant Scheme Rules.

Auditors report

The Trustee can confirm that PricewaterhouseCoopers, the Funds's independent auditors, have confirmed that, in their view, the financial statements show a true and fair view of the financial transactions of the Scheme for the year ended 31 December 2006.

The financial development of the Scheme

Fund Account for the year ended 31 December 2006

Value of Fund at 1 January 2006: £1,777,607,000

	2006 Final salary benefits £'000	2006 Money purchase benefits £'000	2006 Total £'000	2005 Total £'000
Income for the year				
Contributions	12,734	390	13,124	16,612
Investment income	48,589	-	48,589	49,124
	61,323	390	61,713	65,736
Expenditure for the year				
Benefits payable	65,991	469	66,460	64,764
Payments to, and on behalf of, leavers	5,614	1,613	7,227	246,090
State Scheme premium payments	2	34	36	90
Administrative expenses	1,958	-	1,958	1,360
Investment management expenses	1,340	-	1,340	444
	74,905	2,116	77,021	312,748
Returns on investments				
Income less expenditure	(13,582)	(1,726)	(15,308)	(247,012)
Change in market value of investments	75,296	2,548	77,844	202,354
Net increase/ (decrease) in the Fund during the period	61,714	822	62,536	(44,658)

Value of Fund at 31 December 2006: £1,840,143,000

Membership

The following table shows the movement of Scheme members during the period 1 January 2006 to 31 December 2006.

	Final Salary	Money Purchase	Total
Total Membership 1 January 2006	23,305	2,109	25,414
Active members 1 January 2006	551	558	1,109
Active members 31 December 2006	57	132	189
Pensioner members 1 January 2006	8,839	51	8,890
Pensioner members 31 December 2006	9,041	54	9,095
Preserved pensions 1 January 2006	13,915	1,500	15,415
Preserved pensions 31 December 2006	13,897	1,693	15,590
Total Membership 31 December 2006	22,995	1,879	24,874

The active membership changed significantly during the year due to 900 members transferring to Diligenta as part of the outsource arrangement.

Employer contributions

The employer contribution rate in 2006 for each section of the membership was:

- 27% of pensionable salary for Final Salary section members
- 13.8% of pensionable salary for Money Purchase section members
- 20.8% of pensionable salary for the Hybrid members

A summary of the last actuarial valuation findings can be found on pages 9-11. A further actuarial valuation is currently in progress, the results of which will be notified to you once the exercise has been completed.

Managing our investments

Money Purchase section

Members of the money purchase section can choose to invest in seven Henderson Funds as well as the Legal & General Global Equity Fund and the Standard Life Managed Fund. If an investment choice is not made, the members' credits are invested in the default fund, which is the Henderson Enhanced Balanced fund. Members may also choose to invest AVCs in the Henderson Global Technology and the Henderson Industries of the Future funds.

Fund	Value 31.12.2006 £'000	Value 31.12.2005 £'000	2006 Performance %	Benchmark %
Henderson Global (50/50) Enhanced Equity Fund from 15 August 2006 *Henderson Global Equity (Active) Fund to 15 August 2006	5,742	5,145	8.45 1.56	8.64 4.55
Henderson Enhanced Balanced Fund from 15 August 2006 *Henderson Mixed Managed Fund to 15 August 2006	16,257	15,128	6.64 0.65	6.80 2.94
Henderson Global Bond Fund from 15 August 2006 *Henderson Global Bond Fund to 15 August 2006	312	301	-0.85 -6.95	-0.64 -6.32
Henderson Index Linked Bond Fund from 15 August 2006 *Henderson Index Linked Bond Fund to 15 August 2006	278	156	2.40 -0.22	2.11 0.53
Henderson Enhanced Sterling Liquidity Fund from 15 August 2006 *Henderson Cash Fund to 15 August 2006	350	229	1.67 2.69	1.83 2.78
Henderson Industries of the Future Fund	147	75	8.01	5.82
Henderson Global Technology Fund	65	41	-2.43	-3.64
Fidelity Global Equity Fund	2,281	1,687	9.60	14.20
Standard Life Managed Fund	1,184	404	12.27	11.50
Legal & General Global Equity (Passive) Fund	2,588	1,548	14.60	14.60
Total	29,204	24,714		

*The performance of the Henderson funds is split during the year to reflect a switch to new funds on 15 August 2006.

Managing our investments - continued

Withdrawal of the Fidelity Global Equity Fund

The Trustee has decided to withdraw the Fidelity Global Equity fund as they are concerned about its continued suitability as an investment choice for members. There will not be a replacement fund at this time.

The advice the Trustee received from the investment consultant (Hewitt) states that they have a negative view of Fidelity's UK

equity capabilities and, given a large proportion is invested in UK equities, recommended that the Trustee review this appointment. The performance has been affected by the significant underperformance of the UK equity portion of the fund over 1, 3 and 5 year periods. Despite a series of initiatives to address the problem Hewitt are unconvinced of their impact on turning around performance. A summary of the performance is as follows (annualised percentage, net of fees to 31 March 2007):

	Q1 2007	1 year	3 years	5 years
Fidelity Global Equity (70/30) Pensions Fund	3.0	6.2	15.2	6.6
Benchmark	2.9	9.1	17.3	7.9

Members with investments in Fidelity should have already received a letter asking where they would like future contributions to be invested and to provide details of where they would like existing monies to be transferred. If a choice is not made, existing monies and future contributions will be invested in the default fund (Henderson Enhanced Balanced Fund).

Final Salary sections

The investment manager for the Final Salary section is Henderson Global Investors.

The current asset allocation strategy was set in May 2005. The assets are divided into two categories. The first is a portfolio where the assets can consist of a mix of index-linked and conventional bonds. This portfolio is held on a passive basis and the estimated return of the index-linked assets for 2006 which are held on a buy and hold basis was 3.25%.

The second category consists of a mix of equities, bonds, property, private equity and other assets and which is designed to produce higher returns than the first category assets. The estimated return achieved by the Scheme for 2006 was 11.4% against the estimated benchmark return of 11.7%. Over the three years to December 2006 the Scheme returned 13.9% per annum against the estimated benchmark return of 14.6%.

Since the market value of the Scheme is large compared with the size of the contributions required to fund future service benefits, the Trustee is placing considerable emphasis in its future investment strategy on the reduction of investment risks relative to the liabilities and an increase in the predictability of financial outcomes at successive actuarial valuations, to increase the security of benefits for members.

Your new website

The Trustee Directors are pleased to announce that the website for the Pearl Group Staff Pension Scheme went live in August 2007.

It can be found at www.pearlstaffpensionscheme.co.uk

Documents and forms can be viewed or downloaded from the members' section and there are also answers to questions frequently asked by members. Alternatively, you can contact the Scheme Administrators with any queries you have by sending a secure email whilst browsing the site. There is also a separate secure area for the Scheme's Trustee Directors.

The website has been designed to provide general information only, so neither you, nor anyone else, will be able to see your personal information.

The Website will be updated regularly by the Scheme Administrators, First Actuarial plc.

Change of contact details

When responsibility for the administration of the Pearl Group Staff Pension Scheme moved to First Actuarial it was necessary to provide members with a new telephone number to contact the administration team as it was not possible to transfer the old 'Pearl' number to the new office. An 0870 number was used but due to the 'bad press' associated with 0870 numbers First Actuarial have now changed the contact number to 01733 393020, charged at standard rate. Please note that the contact fax number remains unchanged.

Member Nominated Trustee Directors

Active and pensioner members will have received a booklet earlier in the year which outlined the structure of the Pearl Staff Pension Scheme's Trustee Board, P.A.T (Pensions) Limited. This is part of the recent exercise to seek candidates for election as Member Nominated Trustees of the Board.

A selection panel has reviewed all the nominations. The Trustee was keen to ensure that the active membership had representation on the Trustee Board and agreed that the active member with the highest number of votes would be elected to the Board. Only one active nomination was received and was considered suitable for the role and so will fill one of the three Member Nominated Trustee Director vacancies.

There are two remaining vacancies and a further communication will be issued shortly (to active and pensioner members) to invite them to vote for those nominees who have put themselves forward for the available roles.



Summary Funding Statement

Final Salary sections only

The last ongoing funding valuation

The most recent funding valuation of the pension Scheme showed that on 31 December 2003 the funding position (excluding Money Purchase section and AVC assets and liabilities) was as follows:

Assets	£1,663 million
Amount needed to provide benefits	£1,654 million
Excess	£9 million
Funding level	101%

There is no change in the rate of active members' contributions. There has not been any payment to Pearl Group Limited out of Scheme funds in the previous 12 months.

Important: If you are thinking of leaving the Scheme for any reason, you should consult a professional adviser, such as an independent financial adviser (IFA), before taking any action.

Change in funding position

Using the same methodology as was used for the 31 December 2003 valuation of the Scheme, the Scheme Actuary has estimated that the funding level of the Scheme at 31 December 2005 was approximately 103%. The estimated funding level has improved since the 2003 valuation, mainly due to the better than expected investment returns on the Scheme's assets more than offsetting the increase in the value of the Scheme's benefits.

The Actuary provided a further update, as at 30 June 2006, on the ability of the Scheme to secure the benefits of the final salary section members in the event of the Scheme commencing winding up and members' benefits being secured with an insurance company known as the 'buy-out' position. The 'buy-out' position will often show a lower funding level than the standard actuarial valuation previously mentioned as insurers are required to take a very cautious view of the future and look to make a profit. This update estimated that as at 30 June 2006 the Scheme's assets would have been sufficient to secure, on average, approximately 75% of the final salary members' benefits if the Scheme had started winding up.

This is the same as the position at the last formal valuation as at 31 December 2003. Inclusion of this information does not imply that Pearl Group Limited is thinking of winding up the Scheme.

Next Formal Valuation In Progress and Investment Strategy Review

The next formal valuation of the Scheme is currently in progress and the results of this valuation will be published once the process has been completed. A new Summary Funding Statement will be provided at this time. This is the first valuation of the Scheme which will fall within the scope of the new Scheme specific funding requirements introduced in the Pensions Act 2004.

The Trustees are reviewing the investment strategy for the Scheme as part of this valuation and the outcome of this review will be communicated to you.

How the Scheme operates

How is my pension paid for?

Pearl Group Limited pays contributions to the Scheme so that the Scheme can pay pensions and other benefits to Scheme members as they fall due.

The money to pay for the Final Salary benefits is held in a common fund. It is not held in separate funds for each individual.

How is the amount the Scheme needs worked out?

The Trustee obtains regular valuations of the benefits earned by members. Using this information, the Trustee comes to an agreement with Pearl Group Limited on future contributions.

The importance of Pearl Group Limited's support

The Trustee's objective is to have enough money in the Scheme to pay pensions now and in the future. However, success of the plan relies on Pearl Group Limited continuing to support the Scheme because:

- Pearl Group Limited will be paying the future expenses of running the Scheme on an annual basis;
- the funding level can fluctuate, and when there is a funding shortfall, Pearl Group Limited will usually need to put in more money;
- if the target funding level should turn out not to be enough, Pearl Group Limited will need to put in more money.

What would happen if the Scheme started to wind up?

If the Scheme winds up, you might not get the full amount of pension you have built up even if the Scheme is fully funded under our plan. However, whilst the Scheme remains ongoing, even though funding may temporarily be below target, benefits will continue to be paid in full.

If the Scheme were to start to wind up, Pearl Group Limited is required to pay enough into the Scheme to enable the members' benefits to be completely secured with an insurance company. It may be, however, that Pearl Group Limited would not be able to pay this full amount. If Pearl Group Limited became insolvent, the Pension Protection Fund might be able to take over the Scheme and pay compensation to members.

Further information and guidance is available on the Pension Protection Fund's website www.pensionprotectionfund.org.uk. Or you can write to the Pension Protection Fund at Knollys House, 17 Addiscombe Road, Croydon, Surrey CR0 6SR.

Why does the funding plan not call for full solvency at all times?

The full solvency position assumes that benefits will be secured by buying insurance policies. Insurers are obliged to take a very cautious view of the future and need to make a profit. The cost of securing pensions in this way also incorporates the future expenses involved in administration. By contrast, our funding plan assumes that Pearl Group Limited will continue in business and support the plan.

What does the Scheme invest in?

The Trustee's policy is to invest in a broad range of assets in approximately the following proportions:

Bonds (including index-linked bonds)	58 %
Company shares	30 %
Property	12 %

Where can I get more information?

If you would like more information, please contact the Scheme Administrators (see page 12). A list of more detailed documents which provide further information is shown below.

- The *Statement of Investment Principles*
- The *Schedule of Contributions*
- The *Annual Report and Accounts*
- The *Actuarial Valuation*
- Your *Annual Benefit Statement*.

Please help us to keep in touch with you by telling us if you change address.



First Actuarial plc
38 Tyndall Court
Commerce Road
Lynch Wood
Peterborough
PE2 6LR

Trustee and Advisers to the Scheme

Trustee

P. A. T. (Pensions) Limited

Trustee Directors

K Jones, FIA, MBA (Chairman) *Deferred Member*

T Cross Brown, MBA *External Company appointment*

G S Felston, FCII, MBA *Director of Governance, Pearl Group Limited (Member Nominated Director)*

J Marshall-Robb, Chartered FCIPD *Director of Human Resources, Pearl Group Limited*

M J Mauchline, FCII *Pensioner Member (Member Nominated Director)*

H Nawaz-Khan, FIA *Deferred member (Member Nominated Director)*

Secretary

C L Wilson *First Actuarial plc (from 1 April 2006)*

L A Williams, MBA, APMI *Head of Pensions, Henderson Group plc (until 1 April 2006)*

Sponsoring Employer

Pearl Group Limited, The Pearl Centre, Lynch Wood, Peterborough PE2 6FY

Actuary

Watson Wyatt Ltd

A F M Watson, FFA *(until 2 July 2006)*

N Wearing, FIA *(from 2 July 2006) is the Scheme Actuary appointed for the purposes of the Pensions Act 1995.*

Joint Legal Advisers

Reed Smith Richards Butler LLP *(formerly Richards Butler)*

Pearl Group Services *(until 14 August 2006)*

A Mather *(from 19 November 2003)*

Kirkpatrick & Lockhart Preston Gates Ellis LLP

Investment Managers

Henderson Fund Management PLC *(trading as Henderson Global Investors)*

Fidelity Investments Life Assurance Limited *(for the Money Purchase section)*

Standard Life Investments Limited *(for the Money Purchase section)*

Legal and General Assurance (Pensions Management) Ltd. *(for the Money Purchase section)*

Investment Advisers

Hewitt Bacon & Woodrow

Auditors

PricewaterhouseCoopers LLP

Custodians

BNP Paribas Securities Services

Bankers

HSBC Bank PLC

Your contacts

If members have any queries concerning their benefits, they should contact the Scheme Administrators at:

First Actuarial plc, Pearl Group Staff Pension Scheme,
38 Tyndall Court, Commerce Road, Lynch Wood,
Peterborough PE2 6LR

Telephone: 01733 393020

Fax: 08708 795200

Email: pearl@firstactuarial.co.uk

Website: www.pearlstaffpensionscheme.co.uk