



The **Trustee's report** to members
for the year ended **31 December 2007**

Pearl Group Staff Pension Scheme



Changes to the Scheme

You will have received a booklet earlier in the year entitled 'Report on the Actuarial Valuation', which outlines the Scheme's new funding agreement. This new agreement is aimed at ensuring the long-term security of the Scheme and strengthening the support provided by the Company.

As part of the agreement with the Company the Scheme year end has changed to 30 June with the next set of audited accounts to be prepared for the period 1 January 2007 to 30 June 2008. The financial summary included in this report is therefore unaudited. The next Short Report will be based on the 18-month audited accounts.

This report is based on the unaudited accounts for the period 1 January 2007 to 31 December 2007; where appropriate we have also included information on events in 2008 (*shown in italics*).

Investment Manager and Custodian

As communicated previously the Trustee and the Company agreed to change investment managers for the final salary assets from Henderson Global Investors to Axial Investment Management.

The current custodian appointment of BNP Paribas was also reviewed as part of the transition and after the appropriate

due diligence, State Street Bank and Trust Company was selected by the Trustee to provide global custodian services. The change of investment manager to Axial and custodian to State Street took place on 29 February 2008. The transition went smoothly and work is underway to complete the final reporting information required from Henderson Global Investors and BNP Paribas Security Services.

Escrow payments

There is one remaining payment due from the escrow account set up under the Escrow Deed dated 29 March 2005. This will be made in June 2008.

As part of the funding agreement with the Company, £50 million will be paid by the Company into an escrow fund to improve short-term security, which will be retained in that fund until 30 June 2027.

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 4.6% on 1 April 2007 (4.1% on 1 April 2008). Deferred pensions were increased in line with the relevant Scheme Rules.

The financial development of the Scheme

Fund Account for the year ended 31 December 2007

Value of Fund at 1 January 2007: £1,840,143,000

	2007 Final Salary benefits £'000	2007 Money Purchase benefits £'000	2007 Total £'000	2006 Total £'000
Income for the year				
Contributions	12,385	326	12,711	13,124
Investment income	48,197	-	48,197	48,589
	60,582	326	60,908	61,713
Expenditure for the year				
Benefits payable	(67,618)	(391)	(68,009)	(66,460)
Payments to, and on behalf of, leavers	(6,494)	(1,552)	(8,046)	(7,227)
State Scheme premium payments	-	(4)	(4)	(36)
Administrative expenses	(1,352)	-	(1,352)	(1,958)
Investment management expenses	(1,338)	-	(1,338)	(1,340)
	(76,802)	(1,947)	(78,749)	(77,021)
Returns on investments				
Income less expenditure	(16,220)	(1,621)	(17,841)	(15,308)
Change in market value of investments	73,140	2,767	75,907	77,844
Net increase/(decrease) in the Fund during the period	56,920	1,146	58,066	62,536

Value of Fund at 31 December 2007: £1,898,209,000

Membership

The table below shows the movement of Scheme members during the period 1 January 2007 to 31 December 2007.

	Final Salary	Money Purchase	Total
Total Membership 1 January 2007	22,995	1,879	24,874
Active members 1 January 2007	57	132	189
Active members 31 December 2007	50	186	236
Pensioner members 1 January 2007	9,041	54	9,095
Pensioner members 31 December 2007	9,189	57	9,246
Preserved pensions 1 January 2007	13,897	1,693	15,590
Preserved pensions 31 December 2007	13,458	1,660	15,118
Total Membership 31 December 2007	22,697	1,903	24,600

Employer contributions

The employer contribution rate in 2007 for each section of the membership was:

- 48.8% of pensionable salary for Final Salary section members
- 12.4% of pensionable salary for Money Purchase section members
- 19.1% of pensionable salary for the Hybrid members

A summary of the last actuarial valuation findings can be found on page 9. The next actuarial valuation will be carried out as at 30 June 2009 and members can expect to receive a new Summary Funding Statement following this valuation.

Managing our investments

Money Purchase section

Members of the Money Purchase section can choose to invest in five Henderson Funds as well as the Legal & General Global Equity Fund and the Standard Life Managed Fund. It is preferable for members to choose where their contributions are invested, but if an investment choice is not made the members' credits are invested in the default fund (Henderson Enhanced Balanced Fund). Members may also choose to invest AVCs in the Henderson Global Technology and the Henderson Industries of the Future funds. The Trustee will continue to keep the available funds under review.

Fund	Value 31.12.2007 £'000	Value 31.12.2006 £'000	2007 Performance %	Benchmark %
Henderson Enhanced Balanced Fund Benchmark: Fixed weight composite index - 37.5% UK Equity, 37.5% Overseas Equity, 25% Bonds	18,155	16,257	7.03	7.10
Henderson Global (50:50) Enhanced Equity Fund Benchmark: Fixed weight composite index - 50% UK Equity, 50% Overseas Equity	6,146	5,742	7.41	7.24
Henderson Global Bond Fund Benchmark: Citigroup World Government Bond Index	354	312	7.52	9.09
Henderson Index-Linked Bond Fund Benchmark: FTA Government index-linked (over 5 years)	362	278	8.80	8.56
Henderson Enhanced Sterling Liquidity Fund Benchmark: 3 month LIBOR	406	350	5.80	5.89
Standard Life Managed Fund Benchmark: CAPS Balanced Median	1,986	1,184	7.50	7.90
Legal & General (70:30) Global Equity Index Fund Benchmark: Composite Benchmark	4,267	2,558	7.80	7.90
Henderson Global Technology Fund Benchmark: MSCI All Countries World IT Index	162	65	22.86	11.97
Henderson Industries of the Future Fund Benchmark: MSCI World Index	214	147	16.36	7.73

Note: Please remember that past performance is not a guide to future performance. The value of an investment and the income from it can fall as well as rise as a result of market fluctuations.

Statement of Investment Principles

This is a summary of the Scheme's revised Statement of Investment Principles, which covers both the Defined Benefit and Defined Contribution sections of the Scheme.

Defined Benefit section

The current asset allocation strategy was set in October 2007 and, together with the new funding agreement mentioned earlier in this report, is aimed at gradually improving the position of the Scheme over the next 20 years in a risk controlled manner. The Trustee has also entered into Escrow arrangements to benefit the Scheme – you can read about the Escrow account on page 2 of this report.

The investment approach is structured so that the assets produce a return at least equal to the return required for the Scheme's position to improve progressively as intended. As part of the funding agreement the Company will guarantee returns on the Scheme's assets sufficient to remove the funding shortfall by 30 June 2027. If investment returns are below the guaranteed return, the Company will make additional contributions after each triennial valuation.

Investment objective - Defined Benefit section

The Trustee aims to invest the assets of the Scheme prudently to ensure that the benefits promised to members are provided. In setting investment strategy, the Trustee first considered the lowest risk asset allocation that it could adopt in relation to the Scheme's liabilities. The asset allocation strategy it has selected has downside protection in the form of a company guarantee to make good any resulting Scheme funding deficit to 2027 and is designed to achieve a higher return than the lowest risk strategy while maintaining a prudent approach to meeting the Scheme's liabilities. The strategy also aims to reduce and carefully control the impact of inflation rate and interest rate changes on the funding position of the Scheme.

Risk management

The Trustee recognises that the key risk to the Scheme to be managed is that it has insufficient assets to make provisions for 100% of its liabilities. In addition, the Trustee has identified further risks to be managed which have the potential to cause a deterioration in the Scheme's funding level. It is the Trustees' policy to review such risks on a regular basis in order to improve the health of the Scheme and protect its assets. Each quarter, the Trustee receives a report on the performance of the Defined Benefit section assets.

Defined Contribution section

The Scheme's investment objective is implemented using a range of investment options, further details can be found in the Statement of Investment Principles (SIP). A copy of the SIP is available on request from the Scheme's Administrators or on the website www.pearlstaffpensionscheme.co.uk.

It is the Trustee's policy to provide suitable information for members so that they can make the appropriate investment decisions. The range of funds was chosen by the Trustee after taking expert advice from the investment advisers and is kept under review.



Investment objective - Defined Contribution section

In investing the assets of the Scheme in a prudent manner, the Trustees' key aim is to provide a range of investments that are suitable for meeting members' long and short-term investment objectives. They have taken into account members' circumstances, in particular members' attitudes to risk and term to retirement.

Governance

The Trustee of the Scheme is responsible for the investment of the Scheme assets. The Trustee takes some decisions itself and delegates others. When deciding which decisions to take itself and which to delegate, the Trustee has taken into account whether it has the appropriate training and expert advice in order to take an informed decision. The Trustee has established the following decision making structure:

Trustee

- set structures and processes for carrying out its role
 - select and monitor planned asset allocation
 - select direct investments
 - decide on
 - selection of investment advisers and fund managers
 - investment structures and their implementation
 - monitor investment advisers and fund managers
 - monitor direct investments
 - make day-to-day decisions relevant to operation of Scheme's investment strategy
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Investment Adviser

- advise on all aspects of the investment of the Scheme assets, including implementation
- advise on the Statement of Investment Principles
- provide required training

Fund Managers

- operate within the terms of this statement and their written contracts
- select individual investments with regard to their suitability and diversification
- advise Trustee on suitability of its benchmark

Actuarial Valuation

– a summary

Earlier in the year you will have received a booklet detailing the findings of the last Actuarial Valuation as at 30 June 2006. This report explained the new funding agreement between the Trustee and the Company, as well as outlining the changes which have been made to the valuation process itself. The table below shows the funding position of the Scheme as at 30 June 2006, calculated using the new valuation basis. This takes into account several factors which were not allowed for in the previous valuation basis.

Pensioners and dependants	£1,045m
Deferred pensioners	£1,015m
Active members	£20m
Money purchase and AVCs	£40m
Expenses	£19m
Total past service liabilities	£2,139m
Market value of assets	£1,756m
Excess of liabilities over assets	£383m
Funding level	82%

Change in funding position since the valuation

The latest Actuarial Report by the Scheme Actuary showed that on 30 June 2007 the funding of the Scheme was progressing as anticipated and the funding level was estimated to be 84% with a reduced shortfall of £350 million. The position had got better since the valuation mainly due to higher investment returns than expected.

Latest News – Resolution

On 1 May 2008, the Resolution businesses (Phoenix, Scottish Provident, Scottish Mutual, Resolution Asset Management) became part of the Pearl Group of Companies. More information is available on the Pearl Group website www.pearlgrouplimited.co.uk.

Where can I get more information?

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

The Statement of Investment Principles;

The Schedule of Contributions;

The Actuarial Valuation;

Your Annual Benefit Statement

Please note a copy of the Report & Accounts for year ended 31 December 2007 is unavailable due to this report being based on unaudited accounts (see page 2 - Changes to the Scheme).

Website

The Scheme has a website, which can be found at www.pearlstaffpensionscheme.co.uk.

The website has been designed to provide general information about the Scheme only. You are not able to access personal data on this website.

The following are examples of the type of information available on the website:

- Latest news
- Previous Short Reports to members
- Valuation Report communication
- Money Purchase fund factsheets
- Frequently asked questions
- Links to other related websites
- Downloadable forms to make changes to your membership, for example change of address, nomination details
- 'Contact us' section – to send a secure email to the Scheme Administrators or send feedback

The Scheme Trustees

There have been substantial changes to the board of Trustee Directors during 2007, including the election of three Member Nominated Trustee Directors (MNTDs) to satisfy the requirements of the Pensions Regulator's Code of Practice.

J Marshall-Robb, Chartered FCIPD (resigned 30 June 2007) and H Nawaz-Khan FIA (resigned 26 November 2007) are no longer Trustee Directors – we would like to thank them for their time, effort and past service on the board.

Since 31 December 2007, Tom Cross Brown resigned (31 March 2008) and Ashok Gupta joined the board.



Trustees Kevin Hume, Max Mauchline, Keith Jones, Graham Felston, David Baker, Chris Munro. (Unfortunately Ashok Gupta was not available for the photograph)

Trustee

P.A.T. (Pensions) Ltd

Trustee Directors

K Jones BSc, FIA, MBA

Chairman,
deferred member

DM Baker BA, MA

Company nominated,
Director of Product and
Liability Management,
Pearl Group Limited

GS Felston BSc, FCII, MBA

Company nominated,
Director of Governance,
Pearl Group Limited

AK Gupta BSc, MBA, FFA

Company nominated,
Sun Capital Partners

K Hume BSc, ACA

Member nominated,
active member, Head
of Internal Audit,
Pearl Group Limited

MJ Mauchline FCII

Member nominated,
pensioner member

CA Munro BSc FIA

Member nominated,
pensioner member



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

Advisers to the Scheme

Secretary

C L Wilson *First Actuarial plc*

Sponsoring Employer

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

Actuary

Watson Wyatt Ltd, Watson House, London Road,
Reigate, Surrey RH2 9PQ

N Wearing, FIA *is the Scheme Actuary appointed
for the purposes of the Pensions Act 1995.*

Joint Legal Advisers

Reed Smith Richards Butler LLP
(formerly Richards Butler)

A Mather

Kirkpatrick & Lockhart Preston Gates Ellis LLP

Investment Managers

Henderson Fund Management PLC *(trading as
Henderson Global Investors) (until 29 February 2008)*

Axial Investment Management
(from 29 February 2008)

Fidelity Investments Life Assurance Limited *(for the
Money Purchase section) (until 11 October 2007)*

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

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

Investment Advisers

Hewitt Associates Limited

Auditors

PricewaterhouseCoopers LLP

Custodians

BNP Paribas Securities Services
(until 29 February 2008)

State Street Bank and Trust Company
(from 29 February 2008)

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