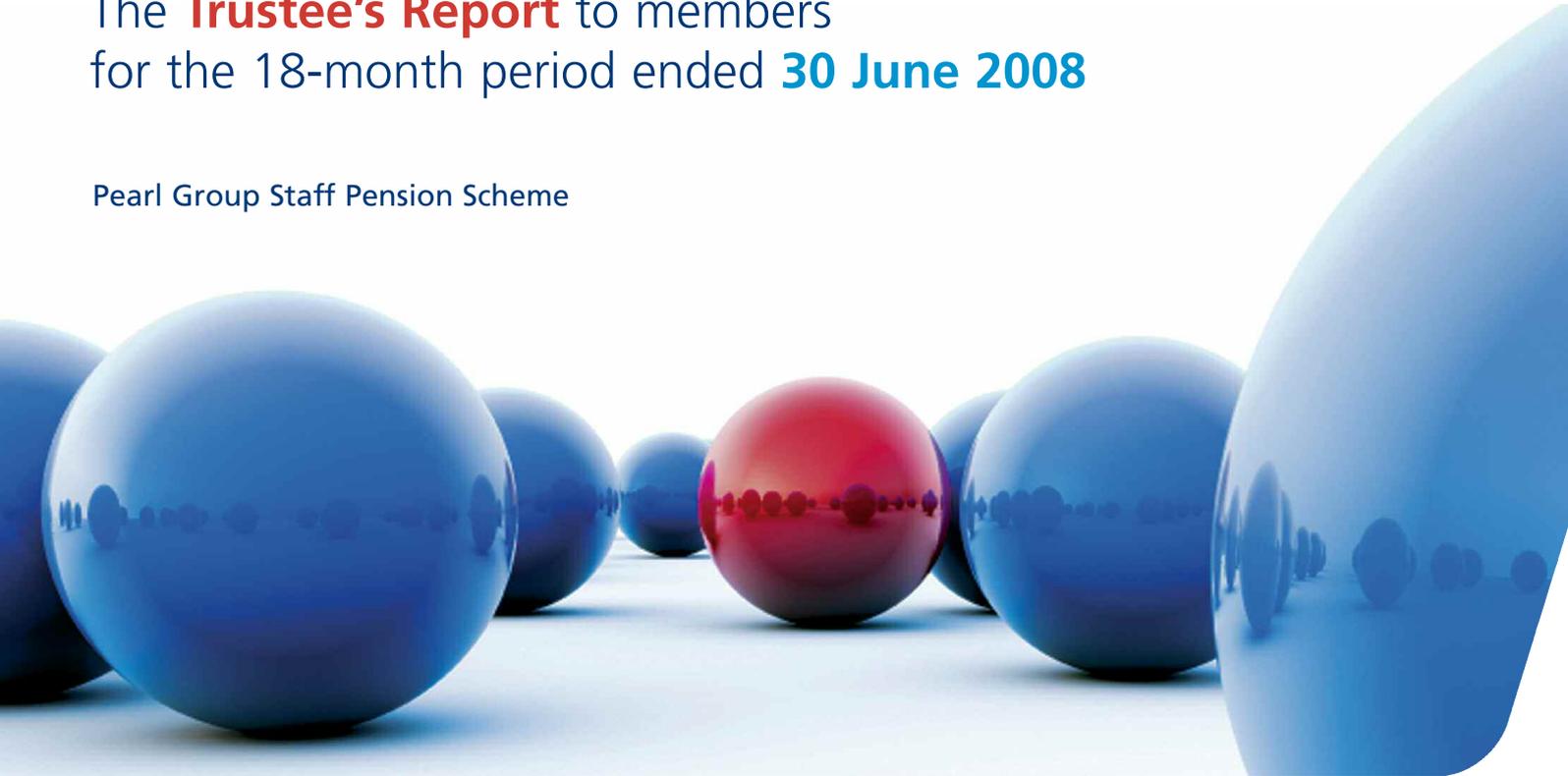




The **Trustee's Report** to members
for the 18-month period ended **30 June 2008**

Pearl Group Staff Pension Scheme



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Changes to the Trustee Board

We welcome Alan Roffey-Jones, who replaced David Baker on 14 November 2008 and The Law Debenture Pension Trust Corporation plc, normally represented by Antony Macwhinnie, who replaced Ashok Gupta on 30 December 2008. Our thanks and best wishes go to David and Ashok for the contribution they made during their terms of office.

Welcome

Welcome to the latest summary of the Pearl Group Staff Pension Scheme Report and Accounts, which covers the 18-month period ended 30 June 2008.

In this report, you will find up-to-date information on the Scheme itself, such as the inclusion of two new Legal & General funds which will widen the investment choices of those in the Money Purchase section. You can also see a summarised version of the income and expenditure of the Scheme over the 18-month period from 1 January 2007 to 30 June 2008, find an update on the Scheme's funding and membership numbers and learn about the role of the Trustee Director.

We do hope you find this report informative – as always, please feel free to contact us if you have any queries regarding your pension by calling the administration team on 01733 393020 or, alternatively, visit the website at www.pearlstaffpensionscheme.co.uk.

A message from Pearl Group Management

2008 was once again an eventful year in Pearl's history. The biggest change to the business took place on 1 May 2008 when Pearl Group acquired Resolution plc, a FTSE100 company.

Pearl is a top 10 UK life company and the UK's largest specialist manager of closed life and pension funds. Companies in the group include: Pearl, London Life, NPI and Phoenix.

Pearl Group remains privately owned by two large investment organisations, Sun Capital and TDR Capital.

With the acquisition of Resolution came new offices in Wythall, near Birmingham, Glasgow, London and Dublin and as part of the long-term business strategy, Pearl announced in September 2008 that it will be transferring almost all business activities from Glasgow and Peterborough, into Wythall by the end of 2011.

The decision to leave Peterborough and Glasgow was reached only after a great deal of careful thought and consideration and is a necessary, though difficult decision to enable the business to continue to be more sustainable in the long term. The move will enable Pearl to consolidate knowledge and



experience, in order to achieve the aim of creating an integrated and sustainable business model which offers value for customers and shareholders.

A major relocation programme has been launched and all staff are being offered the chance to apply for vacant Group roles in Wythall. A comprehensive programme of outplacement support is also in place to assist employees for whom relocation is not an option in achieving re-employment as soon as possible.

Scheme news

Changes to the Scheme

There have been no changes to the structure of the Scheme during the 18-month period.

The Scheme has members in four sections: the Pearl Final Salary section, the London Life Final Salary section, the NPI Final Salary section and the Money Purchase section. The Principal Employer is Pearl Group Limited and this has not changed.

During the period, one rule amendment was made to address any potential salary sacrifice arrangements the Company may introduce for current staff.

Escrow payments

In April 2005, the Company established an 'escrow' account for the benefit of the Scheme. The final payment from this account of £5.8 million was made to the Scheme in June 2008.

A new escrow account has been established under the agreement negotiated between the Trustee and the Company (this agreement is outlined in the booklet 'Report on the Actuarial Valuation', dated 30 June 2006).

Pension increases

In accordance with the Scheme rules, pensions in payment were increased by 4.1% on 1 April 2008; 4.6% on 1 April 2007 and 2.4% on 1 April 2006.

Pensioner verification

The Trustee agreed that an exercise should be performed to verify the existence of the pensioners of the Scheme. This was carried out by a third party and the following was a brief outline of the process.

Key membership data was checked against the official death registers of England, Scotland and Wales and the results cross-referenced with name and address databases to ensure the accuracy of the information. Any queries were then investigated by the Scheme's administrators and subsequently resolved. A separate exercise was performed for overseas pensioners and again all queries were resolved. The Trustee was pleased with the accuracy of the pensioner data and has agreed that this exercise will be carried out every three years.

The financial development of the Scheme

Fund Account for the 18-month period ended 30 June 2008

Value of Fund at 31 December 2006: £1,840,143,000 (start of 18-month period)

	18 months to 30 June 08 Final Salary benefits £'000	18 months to 30 June 08 Money Purchase benefits £'000	18 months to 30 June 08 Total £'000	Year to 31 Dec 06 Total £'000
Income for the period				
Contributions	19,748	427	20,175	13,124
Investment income	77,574	-	77,574	48,589
Other income	2,169	-	2,169	-
	99,491	427	99,918	61,713
Expenditure for the period				
Benefits payable	(101,979)	(422)	(102,401)	(66,460)
Payments to, and on behalf of, leavers	(9,161)	(2,118)	(11,279)	(7,227)
State Scheme premium payments	(1)	(12)	(13)	(36)
Administrative expenses	(3,258)	-	(3,258)	(1,958)
Investment management expenses	(2,111)	-	(2,111)	(1,340)
	(116,510)	(2,552)	(119,062)	(77,021)
Returns on investments				
Income less expenditure	(17,019)	(2,125)	(19,144)	(15,308)
Change in market value of investments	22,046	(491)	21,555	77,844
Net increase/(decrease) in the Fund during the period	5,027	(2,616)	2,411	62,536

Value of the Fund at 30 June 2008: £1,842,554,000

Money Purchase/Defined (DC) Contribution section

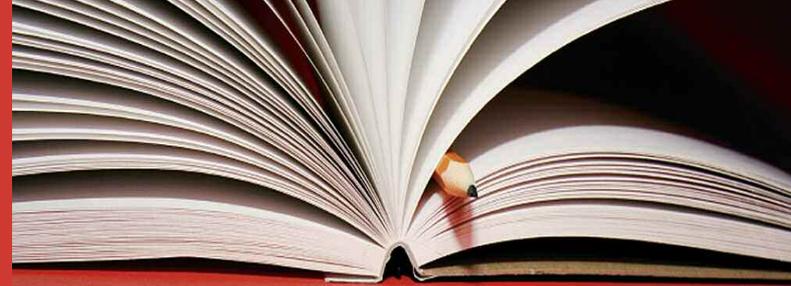
Additional Legal & General funds to widen your investment choices

The Trustee introduced two new Money Purchase funds for the Scheme in November 2008. These new funds are:

- Legal & General World Equity Index Fund – after careful consideration and investment advice the Trustee decided that this fund should replace the Henderson Enhanced Balanced Fund as the default fund option for new members
- Legal & General Over 15 Year Gilts Index Fund

Regular review of investment options

The Trustee is keen to remind members to consider their investment options carefully. Please note however that neither the Trustee nor its advisers are able to provide any investment advice. If you would like advice you should contact an independent financial adviser. More information to help you choose your investment options can be found in the Scheme Booklet, a copy of which is available on the Scheme's website at www.pearlstaffpensionscheme.co.uk where you can also find more information on the individual investment funds.



Option to switch

If you would like to switch any of your existing funds then a switch form is available on the Scheme's website or by calling the administration team on 01733 393020. You can switch all or part of your account between the different funds up to three times a year without charge.

Managing your investments

Money Purchase section

As at June 2008, members of the Money Purchase section could choose to invest in seven Henderson Funds as well as the Legal & General Global Equity Fund and the Standard Life Managed Fund. The Trustee will continue to keep the funds available under review.

Fund	12 Month Performance to 30 June 2008	
	Fund	Benchmark
Henderson Enhanced Balanced Fund Benchmark: Fixed weight composite index - 37.5% UK Equity, 37.5% Overseas Equity, 25% Bonds	- 6.55%	- 6.07%
Henderson Global (50:50) Enhanced Equity Fund Benchmark: Fixed weight composite index - 50% UK Equity, 50% Overseas Equity	- 11.25%	- 11.15%
Henderson Global Bond Fund Benchmark: Citigroup World Government Bond Index	15.99%	17.96%
Henderson Index-Linked Bond Fund Benchmark: FTA Government index-linked (over 5 years)	16.42%	17.17%
*Henderson Enhanced Sterling Liquidity Fund Benchmark: 3 month LIBID	6.73%	6.01%
Standard Life Managed Fund Benchmark: CAPS Balanced Median	- 9.20%	- 8.20%
Legal & General (70:30) Global Equity Index Fund Benchmark: Composite Benchmark	- 11.30%	- 11.20%
Henderson Global Technology Fund Benchmark: Benchmark: MSCI All Countries World IT Index	- 6.30%	- 7.73%
Henderson Industries of the Future Fund Benchmark: MSCI World Index	- 6.70%	- 9.45%

*Please note that the Henderson Enhanced Sterling Liquidity Fund has now changed its name to Henderson Cash Fund. This change took effect on 1 August 2008 and the Fund will, in future, be referred to under its new name.

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 and currency fluctuations. Detailed fund performance fact sheets are available on the website at www.pearlstaffpensionscheme.co.uk

Membership

The table below shows the movement of Scheme members during the 18-month period 1 January 2007 to 30 June 2008.

	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 30 June 2008	50	208	258
Pensioner members 1 January 2007	9,041	54	9,095
Pensioner members 30 June 2008	9,266	62	9,328
Preserved pensions 1 January 2007	13,897	1,693	15,590
Preserved pensions 30 June 2008	13,227	1,643	14,870
Total Membership 30 June 2008	22,543	1,913	24,456

The employer contribution rate during the period 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

Final Salary section

Until 29 February 2008, the investment manager for the Final Salary section was Henderson Global Investors.

At the beginning of 2007 the Fund had an overweight position in overseas equity markets, focused on the US, Japanese and European markets. This was offset by an underweight position in bond markets (UK gilts and corporate bonds). There was also a small overweight position in property and the Fund had a small holding in private capital.

Apart from some minor movement in the overweight equity position (where adjustments were made to favour Asian and Emerging markets rather than the US market) these positions were retained until October, when active asset allocation was stopped after notice was given that the Fund would be terminating its agreement with Henderson.

From 29 February 2008, the investment manager for the Final Salary section is Axial Investment Management ('Axial'), who are Pearl Group's in-house investment management company. Axial's investment strategy is designed to perform in the long run, aiming for a 'Gilts Funding' target by 2027 (as set out in the Funding Agreement with the Company). This strategy is aiming to invest across a diverse range of investments,



along with the implementation of risk reduction hedging transactions in order to reduce the imbalance between assets and liabilities which exists at present.

The Trustee holds regular meetings (at least quarterly) to discuss investment performance and strategy with the investment managers. During the transitional period between Henderson Global Investors and Axial Investment Management the Trustee received reports from Axial on a monthly basis. Details of how the Scheme is invested are included on page 13.

Summary Funding Statement – Final Salary sections only

Summary of the last Scheme funding valuation as at 30 June 2006

The valuation of the Scheme showed that on 30 June 2006 the funding position (excluding Money Purchase section and AVC assets and liabilities) was as follows:

Assets	£1,716 million
Amount needed to provide benefits (technical provisions)	£2,099 million
Shortfall	£383 million
Funding level	82%

The update provided by the actuary as at 30 June 2007 showed the funding level was 84%.

At the beginning of 2008 you will have received a report on the actuarial valuation which included the above table and a further update was provided in February 2008 (copies of both these communications are available on the Scheme's website).

The next actuarial valuation will be carried out as at 30 June 2009 and members can expect to receive a further Summary Funding Statement in 2010.

More up-to-date information

The latest report by the actuary showed that on 30 June 2008 the funding level was estimated to be 75% with a shortfall of £589 million.

Change in funding position since the previous statement

The position has got worse since the previous statement. The main reason for this funding level being lower than that quoted as at 30 June 2007 (84%) was the reductions in index-linked gilt yields. As liabilities are measured against index-linked gilt yields and these frequently move both up and down, the Scheme liabilities can change similarly and reflect only the position on any particular selected date. These reductions in yields led to the liabilities increasing by more than the increase in the assets. The increase in liabilities due to falling gilt yields was offset to some extent by the increase in the assumed rate of future price inflation.

Payment to Pearl Group Limited

There has not been any payment to Pearl Group Limited out of Scheme funds since the last statement was issued.



How the Scheme operates

How your pension is paid

The assets of the Scheme are held in a common fund which is used to pay pensions and other benefits to Scheme members as they fall due. Pearl Group Limited pays contributions into this fund as required. 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 as is the case for Money Purchase section members.

How is the amount the Scheme needs worked out?

The Trustee has a funding plan (the Statement of Funding Principles) agreed with Pearl Group Limited, which aims to make sure there is enough money in the Scheme to pay for pensions now and in the future. The amount of money that Pearl Group Limited pays into the Scheme may go up or down following regular funding checks by our Actuary (called actuarial valuations).

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, the success of the Scheme relies on Pearl Group Limited continuing to support it 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 had started winding up, it is estimated that the assets available would have been sufficient to secure, on average, 69% of benefits for members of the Final Salary sections (the Actuarial Report at 30 June 2007 showed a solvency level of 76%). **Inclusion of this information does not imply that Pearl Group Limited is thinking of winding-up the Scheme.**

Whilst the Scheme remains ongoing, even though funding may temporarily be below target, benefits will continue to be paid in full. If the Scheme winds up, you might not get the full amount of pension you have built up. 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 at www.pensionprotectionfund.org.uk.

Or you can write to the Pension Protection Fund at:
Knollys House
17 Addiscombe Road
Croydon
Surrey
CR0 6SR

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

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 Scheme.

What is the Scheme invested in?

The Trustee's policy is to invest in a broad range of assets. The table on page 13 provides details of the assets held as at 30 June 2008:

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

Additional documents available on request

The Statement of Funding Principles, which sets out the Scheme's Funding Plan.

The Recovery Plan, which explains how the funding shortfall is being made up.

The Statement of Investment Principles, which explains how the Trustee invests the money paid into the Scheme.

The Schedule of Contributions, which shows how much money is being paid into the Scheme.

The Annual Report and Accounts of the Pearl Group Staff Pension Scheme, which shows the Scheme's income and expenditure in the 18-month period up to 30 June 2008.

The full Report on the Actuarial Valuation following the Actuary's check of the Scheme's financial situation as at 30 June 2006.

An Annual Benefit Statement – if you are an active member of the Scheme (and have not received a benefit statement in the previous 12 months), you can ask for a statement that provides an illustration of your likely pension.

Current (prices as at 30.6.08)

	£m	%
Equity	191.2	10.5
Gilts	2.7	0.1
Index Linked Gifts	774.9	42.7
Corporate bonds/credit	646.7	35.6
Property	160.8	8.9
Cash	10.0	0.6
Alternative investments	32.5	1.8
ALM hedges	(4.9)	(0.3)
Post 30/6/08 Valuation adjustments	1.3	0.1
Total	1,815.20	100

Note: The asset allocation classifications shown above reflect individual investment strategies not actual investments and for this reason do not correspond to the Fund Account table shown on page 5.

Where can I get more information?

If you have any other questions, or would like any more information, please contact the Scheme Administrators. A list of more detailed documents that provide further information can be found opposite. If you want us to send you any of these documents please let us know.

The role of the Trustee Director

Most occupational pension schemes in the UK, including the Pearl Group Staff Pension Scheme, are set up as trusts to provide security for the members' benefits by ensuring the assets of the pension scheme are kept separate from those of the employer. It also means the scheme can take advantage of certain tax allowances.

A Trustee is a person or company, acting separately from the employer, who holds assets on behalf of the members of the pension scheme. The Pearl Group Staff Pension Scheme has a corporate Trustee, a limited company called P.A.T. (Pensions) Limited.

The Trustee company has no income or expenditure in its own right. P.A.T. (Pensions) Limited currently has a Board of seven Directors - three Member Nominated, two Employer Nominated and two Independent.

What do the Trustee Directors do?

The Trustee Directors play a vital part in managing the Scheme and frequently have to meet new demands in response to legislative and other changes. They are required to have knowledge and understanding of pensions and trust law, scheme investment and scheme funding and their main duties are:

- to see that all members receive the benefits to which they are entitled on a timely basis
- to ensure that the assets of the Scheme are prudently invested and held securely, separately from those of the Company
- to appoint professional advisers to help with the running of the Scheme
- to ensure that the Scheme complies with all statutory requirements
- to monitor the security of members' benefits and to ensure the Scheme is adequately funded
- to check that the correct amount of money is received by the Scheme and that proper records are kept, showing what happens to it from year to year
- to exercise discretionary powers in certain situations
- to ensure that members know about the benefits they are entitled to and understand how the Scheme is run, through regular and timely communications
- to have sufficient knowledge and understanding of trust laws, funding principles and investment principles
- to be familiar with key Scheme documents, such as the Trust Deed and Rules

Trustee and Advisers to the Scheme

Trustee

P.A.T. (Pensions) Limited

Current Trustee Directors:

Chairman

K Jones, BSc, FIA, MBA
deferred member

Employer Nominated Directors

G S Felston, BSc, FCII, MBA, C.Dir
*Head of Diligenta Transformation,
Pearl Group Limited*

A Roffey-Jones, BSc, MA, IPD
*Group HR Director,
Pearl Group Limited*

Member Nominated Directors

K Hume, BSc, ACA
*Head of Internal Audit,
Pearl Group Limited*

M J Mauchline, FCII
Pensioner Member

C A Munro, BSc, FIA
Pensioner Member

Independent Director

*The Law Debenture
Pension Trust Corporation plc,
normally represented by
A Macwhinnie, ACA, MSI*

Secretary

C L Wilson, BSc, APMI
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

Kirkpatrick & Lockhart Preston
Gates Ellis LLP

A Mather (until 1 September 2008)

I D A Johnson
(from 1 September 2008)

Investment Managers

Final Salary sections

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

Axial Investment Management
(from 29 February 2008)

Money Purchase sections

Fidelity Investments Life Assurance
Limited *(until 11 October 2007)*

Henderson Fund Management PLC
(trading as Henderson Global Investors)

Standard Life Investments Limited

Legal and General Assurance
(Pensions Management) Ltd.

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



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

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