

# O-RE HOLDINGS UK LIMITED

(Company Registration Number 5997394)

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## REPORT AND ACCOUNTS

For the year ended 31 December 2009

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**O-RE HOLDINGS UK LIMITED**

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**REPORT AND ACCOUNTS 2009**

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**REGISTERED OFFICE.**

Watson House  
54 Baker Street  
London  
W1U 7BU

Company Registration No 5997394

**BOARD OF DIRECTORS**

M Dale  
Director

H E M Osmond  
Director

Lord E A C Spencer Churchill  
Director

E J C Hawkes  
Alternate Director (alternate to Lord E A C Spencer Churchill)

B J Thompson  
Alternate Director (alternate to M Dale)

**Company Secretary**

A P Bradshaw

## **DIRECTORS' REPORT**

The directors present the consolidated Report and Accounts of O-Re Holdings UK Limited (Company number 5997394) and its subsidiary undertakings ("the Group") for the year ended 31 December 2009

On 24 June 2009, the directors of the Company approved the disposal of the Group's investment in Opal Reassurance Limited in exchange for shares in Liberty Acquisitions Holdings (International) Company ("Liberty"), a company listed on the Euronext exchange. Liberty has since been renamed Phoenix Group Holdings ("Phoenix")

The Group received an initial consideration of 2.48m Ordinary B Shares of Phoenix. The Group also received further consideration in the form of contingent consideration of 2.1m Ordinary B Shares. The receipt of these shares was contingent on the future performance of the Phoenix share price. On 5th July 2010 the Group received 1.97m shares in Phoenix in settlement of the contingent consideration due. The market value of these shares at the date of settlement was £6.71 per share.

On 24 June 2009, the directors of the Company also approved the disposal of its investment in Axial Investment Management Limited to Phoenix for consideration of £1.

Both of these disposals completed on 2 September 2009 and therefore the results of both of these operations have been disclosed as discontinued operations in the profit and loss account, with the prior year comparatives restated in accordance with FRS3 'Reporting Financial Performance'.

On 24 November 2009, the directors of the Company reached agreement with the providers of the loan finance ("Lenders") that interest would cease to accrue with effect from 2 September 2009 and there would be no capital repayments in the period to 31 December 2010, in relation to the £52.5m and £20.0m loan facilities (see note 13). The Lenders have also agreed to endeavour to reach agreement that will see them accept the shares held in Phoenix as full and final settlement of the loan facilities.

### **Principal activities and future developments**

The principal activity of the Company and its subsidiary is to receive returns on its investments.

The net liabilities of the business exceed its net assets. In view of this the Directors have concluded that the business is not a going concern. The Directors plan to oversee an orderly wind down of the business and will endeavour to ensure that external creditors are protected. The Directors are in the process of agreeing revised terms with the long term creditors.

### **Principal risks and uncertainties**

The Group has excess net liabilities and, as a consequence, the accounts have been prepared on a break-up basis. As noted above, the Directors plan to oversee an orderly wind down of the business and will endeavour to ensure that external creditors are protected.

**DIRECTORS' REPORT (continued)**

**Performance during 2009**

The Group generated a profit before taxation and minority interest of £2.7m (2008: loss £68.0m). This profit comprised a profit before taxation of £60.0m (2008: loss £69.0m) from the long-term funds of the Group and a loss before taxation of £57.3m (2008: profit of £1.0m) from the Group's shareholder assets.

The consolidated cash flow statement of the Group reported a decrease in net cash during the year ended 31 December 2009 of £23.3m (2008: decrease of £18.3m).

**Dividends**

No dividends were paid or recommended in the year ended 31 December 2009 (2008: £Nil).

**Position as at 31 December 2009**

The consolidated net liabilities of the Group at 31 December 2009 were £65.3m (2008: £60.4m).

The accounts have been prepared on a break up basis with all assets and liabilities stated at current value. Due to the nature of the company's assets the only valuation adjustment required to reflect this was to the loans due to external parties. The company has no employees and therefore no provisions for severance or redundancy are required.

**Share capital**

Details of movements in allocated share capital during the year are given in note 8 on the accounts.

**Directors and their interests**

The names of the directors as at the date of this report are set out on page 2. Additional information in relation to changes in Directors and Alternate Directors is as follows:

W A McIntosh	Resigned 29 September 2009
M C Allen (Alternate Director)	Resigned 29 September 2009

**Audit information**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

By order of the Board of Directors



A P Bradshaw  
Secretary

9 February 2011



Edward Spencer-Churchill  
Director

9 February 2011

**STATEMENT OF DIRECTORS' RESPONSIBILITIES IN RESPECT OF THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS**

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group for that period. In preparing each of the group and parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and parent company will continue in business. As explained in the basis of preparation, the directors do not believe that it is appropriate to prepare these financial statements on a going concern basis

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

## **REPORT OF THE AUDITORS, KPMG AUDIT PLC, TO THE MEMBERS OF O-RE HOLDINGS UK LIMITED**

We have audited the financial statements of O-Re Holdings UK Limited for the year ended 31 December 2009 set out on pages 8 to 26. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice). These financial statements have not been prepared on the going concern basis for the reason set out in the basis of preparation of the financial statements on page 14.

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 auditors' 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 auditors**

As explained more fully in the Directors' Responsibilities Statement set out on page 5, 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 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 (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the APB's web-site at [www.frc.org.uk/apb/scope/UKNP](http://www.frc.org.uk/apb/scope/UKNP).

### **Qualified opinion on financial statements arising from limitation in audit scope**

With respect to the results of Opal Reassurance Limited, a subsidiary undertaking disposed of by the Group during the year, the evidence available to us was limited because the Group no longer controls Opal Reassurance Limited. In consequence we were unable to carry out auditing procedures necessary to obtain sufficient appropriate audit evidence regarding the results of this company from 1 January 2009 to the date of its disposal by the Group on 2 September 2009 and of its net assets at that date. These consolidated financial statements have been prepared based upon the management accounts of this subsidiary for the period to 30 September 2009. The operating profit included in the consolidated accounts in respect of this subsidiary was £57.3 million and any adjustment to this figure would have an equal and opposite effect on the loss on sale.

Except for the financial effects of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the results of Opal Reassurance Limited and the loss on disposal of that company, in our opinion the financial statements:

- give a true and fair view of the state of the group and the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### **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**

In respect solely of the limitation on our work relating to the results of Opal Reassurance Limited, described above

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit, and
- we were unable to determine whether adequate accounting records have been kept

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

- 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



**Karen T Orr (Senior Statutory Auditor)**  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL

Date 9 February 2011



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**O-RE HOLDINGS UK LIMITED**

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**CONSOLIDATED PROFIT AND LOSS ACCOUNT**  
**Technical account for long term business**  
**For the year ended 31 December 2009**

	Notes	Year ended 31 Dec 09 £m	Year ended 31 Dec 08 as restated £m
<b>Earned premiums, net of reinsurance</b>			
Unrealised gains on investments – Discontinued operations	3	96 7	175 9
<b>Total technical income</b>		<u>96 7</u>	<u>175 9</u>
<b>Claims incurred, net of reinsurance</b>			
Claims paid gross amount – Discontinued operations		(198 0)	(300 9)
<b>Change in other technical provisions</b>			
Change in long term business provision – Discontinued operations		161 3	56 0
Taxation charge attributable to the long term business – Discontinued operations		-	-
<b>Total technical charges</b>		<u>(36 7)</u>	<u>(244 9)</u>
<b>Balance on the technical account – long term business (discontinued)</b>		<u>60 0</u>	<u>(69 0)</u>

# O-RE HOLDINGS UK LIMITED

## CONSOLIDATED PROFIT AND LOSS ACCOUNT (CONTINUED)

### Non-technical account

For the year ended 31 December 2009

	Notes	Year ended 31 Dec 09 £m	Year ended 31 Dec 08 as restated £m
Balance on the long term business technical account (discontinued)		60 0	(69 0)
		<hr/> 60 0	<hr/> (69 0)
Investment income – Continuing operations	3	-	2 0
Investment expenses and charges – Continuing operations	3	(9 6)	(1 6)
Other charges – Continuing operations	1 1	(8 2)	(1 1)
Other charges – Discontinued operations	1 1	(2 7)	-
		<hr/>	<hr/>
Operating profit/ (loss) on ordinary activities (discontinued)		57 3	(69 0)
Operating loss on ordinary activities (continuing)		(17 8)	(0 7)
Operating profit/ (loss) on ordinary activities		<hr/> 39 5	<hr/> (69 7)
Share of operating profit in associated undertaking - Continuing operations		-	-
Share of operating profit in associated undertaking – Discontinued operations	6 1(a)	0 8	1 7
		<hr/>	<hr/>
Profit/ (loss) on ordinary activities (discontinued)		58 1	(67 3)
(Loss)/Profit on ordinary activities (continuing)		(17 8)	(0 7)
Profit/ (loss) on ordinary activities		<hr/> 40 3	<hr/> (68 0)
Loss on sale of subsidiary/associates – Discontinued operations		(37 6)	-
Profit/(Loss) on ordinary activities before tax		<hr/> 2 7	<hr/> (68 0)
Taxation on loss on ordinary activities (discontinued)	4	-	(0 1)
Taxation on profit on ordinary activities (continuing)	4	0 2	-
		<hr/>	<hr/>
Profit/(Loss) on ordinary activities after taxation		2 9	(68 1)
Minority interests – Discontinued Operations		(7 8)	9 7
Loss on ordinary activities attributable to shareholders		<hr/> (4 9)	<hr/> (58 4)

The notes on pages 14 to 26 form part of the financial statements

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**O-RE HOLDINGS UK LIMITED**

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**CONSOLIDATED BALANCE SHEET****Assets****At 31 December 2009**

	Notes	31 Dec 09 £m	31 Dec 08 £m
<b>Investments</b>			
Investment in associated undertaking	6 1(a)	-	2 9
Other financial investments	6 1(b)	-	1 5
Deposits with cedant undertakings	6 1(c)	-	3,561 0
Equity investments	6 1(d)	23 5	-
		<hr/> 23 5	<hr/> 3,565 4
<b>Debtors</b>			
Other debtors		-	10 2
<b>Other assets</b>			
Cash at bank and in hand	11 2	1 7	25 0
<b>Total assets</b>		<hr/> 25 2	<hr/> 3,600 6

# O-RE HOLDINGS UK LIMITED

## CONSOLIDATED BALANCE SHEET (CONTINUED)

### Liabilities

At 31 December 2009

	Notes	31 Dec 09 £m	31 Dec 08 £m
<b>Capital and reserves</b>			
Called up share capital	8	0 1	0 1
Profit and loss account	9 1	(65 4)	(60 5)
<b>Equity shareholders' funds</b>	9 1	<u>(65 3)</u>	<u>(60 4)</u>
<b>Minority interests</b>		-	(10 1)
<b>Technical provisions – gross</b>			
Long term business provision – reinsurance contracts		-	3,588 7
<b>Creditors</b>			
Debenture loans	10 2	90 2	80 6
Other creditors including taxation and social security	10 2	0 1	1 7
	10 2	<u>90 3</u>	<u>82 3</u>
<b>Accruals and deferred income</b>		0 2	0 1
<b>Total liabilities</b>		<u>25 2</u>	<u>3,600 6</u>

The accounts were approved by the Board of Directors on the 9<sup>th</sup> February 2011 and signed on its behalf by



Edward Spencer-Churchill

The notes on pages 14 to 26 form part of the financial statements

# O-RE HOLDINGS UK LIMITED

## COMPANY BALANCE SHEET Company number 05997394 At 31 December 2009

	Notes	31 Dec 09 £m	31 Dec 08 £m
<b>Fixed assets</b>			
Investments in group undertakings and participating interests	6 2	-	20 3
<b>Current assets</b>			
Equity Investments	6 1(d)	23 5	-
Debtors		-	0 2
Cash at bank and in hand		1 6	1 7
		<u>25 1</u>	<u>1 9</u>
Amounts owed to group undertakings	10 1	(32 7)	-
Loans to third parties	10 1	(90 2)	-
Accruals and other creditors	10 1	(0 2)	(0 2)
<b>Creditors</b>	10 1	<u>(123 1)</u>	<u>(0 2)</u>
<b>Net current (liabilities)/assets</b>		<u>(98 0)</u>	<u>1 7</u>
<b>Total assets less current liabilities</b>		(98 0)	22 0
<b>Creditors amounts falling due after more than one year</b>			
Loans to third parties		-	(80 6)
<b>Net liabilities</b>		<u>(98 0)</u>	<u>(58 6)</u>
<b>Capital and reserves</b>			
Called up share capital	8	0 1	0 1
Profit and loss account	9 2	(98 1)	(58 7)
<b>Shareholders' funds attributable to equity interests</b>	9 2	<u>(98 0)</u>	<u>(58 6)</u>

The accounts were approved by the Board of Directors on the 9<sup>th</sup> February 2011 and signed on its behalf by



Edward Spencer-Churchill

The notes on pages 14 to 26 form part of the financial statements

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O-RE HOLDINGS UK LIMITED

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**CONSOLIDATED CASH FLOW STATEMENT**  
**For the year ended 31 December 2009**

	Notes	Year ended 31 Dec 09 £m	Year ended 31 Dec 08 £m
<b>Operating activities</b>			
Net cash outflow from operating activities	11 1	(13 5)	(40 9)
<b>Returns on investments and servicing of finance</b>			
Interest received		-	2 0
<b>Taxation</b>			
Group relief received		0 2	0 6
<b>Acquisitions and disposals</b>			
Cash disposed of with subsidiary		(10 0)	-
<b>Financing activities</b>			
Issue of new loans	10	-	20 0
<b>Decrease in cash</b>	11 3	<u>(23 3)</u>	<u>(18 3)</u>

## **ACCOUNTING POLICIES**

### ***Basis of presentation***

The consolidated accounts of the Company and its subsidiary undertakings have been prepared in accordance with the provisions of section 396 of the Companies Act 2006 including applying the requirements set out in Schedule 3 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 relating to insurance companies

The entity accounts of the Company have been prepared in accordance with Schedule 4 to the Companies Act 2006. The consolidated accounts have also been prepared in accordance with applicable UK accounting standards and under the historical cost accounting rules, modified to include the revaluation of investments and comply with the UK Statement of Recommended Practice on Accounting for Insurance Business (SORP) issued by the Association of British Insurers in 2005 and amended in 2006

The accounts have been prepared on a break up basis

In prior years the accounts have been prepared on a going concern basis. As detailed in the Directors' Report, the liabilities of the business now exceed its assets. Following the sale of its subsidiary Opal Reassurance Limited and its interest in Axial Investment Management Limited and the expiration of an agreement with the providers of the loan finance on 31 December 2010 the Directors have taken the decision to prepare the accounts on a break up basis. In light of reflecting liabilities at a fair value a valuation adjustment was made against loans held on the balance sheet. Loans are now carried at current value and not at amortised cost. This is reflected in the profit and loss account within investment expenses and charges – continuing operations

### ***Basis of consolidation***

The consolidated accounts incorporate the accounts of the Company and entities controlled by the Company (its subsidiaries) made up to 31 December each year using consistent accounting policies. As permitted by paragraph 202 of the SORP, the liabilities of the overseas reinsurance subsidiary of the Group have been calculated on a local basis using International Financial Reporting Standards with required local regulatory adjustments

No profit and loss account is presented for the Company as permitted by Section 230(4) of the Companies Act 2006

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal as appropriate. Where there is a loss of control of a subsidiary, the consolidated accounts include the results for the part of the reporting period during which the group has control. Minority interests represent the equity interests in subsidiaries not held by the Group

Principal associated undertakings (both associates and joint ventures) are accounted for by the equity method in the consolidated accounts. The results of associated undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal as appropriate

### ***Contract classification***

All reinsurance contracts have significant reinsurance risk and are therefore accounted for as reinsurance contracts

### ***Reinsurance premiums accepted***

Reinsurance premiums accepted are recognised as revenue when the contractual obligations are entered into and are classified as single premiums

### ***Long term reinsurance contract claims***

Long term business claims reflect the cost of all claims arising during the year including the cost of settlement

### ***Long term business provision***

The long term business provision for the reinsurance contract liability is based on the present value of all future cash flows under the contracts with allowance for risk and uncertainty. Cash flows reflect management's best estimate of the future. Liabilities are discounted at the interest rate specific to the liabilities.

The allowance for risk and uncertainty reflects management's perception of the risk and uncertainty attaching to the cash flows from the portfolio of annuity contracts.

### ***Current asset investments***

Current asset investments include deposits with credit institutions and cash at bank and in hand and are designated on initial recognition as at fair value through profit and loss.

### ***Deposits with cedant undertakings***

The withheld premium represents reinsurance premiums accepted that remain unsettled at the balance sheet date. The cedant has identified a pool of financial investments equal in value to the initial reinsurance premium over which the Group has a fixed charge. The Group is entitled to the investment return arising on these assets and payments of related annuities and asset management fees are deducted from these assets.

This withheld premium has been designated as at fair value through profit and loss on the basis that this receivable is managed and its performance evaluated on a fair value basis. Gains and losses arising from changes in fair value are included in net profit or loss for the year.

### ***Borrowings***

As at 31 December 2008, borrowings were initially recognised at cost, being the fair value of the consideration received net of expenses, together with any unamortised discount and issue expenses at the balance sheet date. Borrowings were subsequently stated at amortised cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

At 31 December 2009 borrowings have been stated at current value as the accounts have been prepared on a break up basis.

### ***Investment income, realised and unrealised gains and losses on investments***

Interest income was accrued up to the 2<sup>nd</sup> September 2009 using the effective yield method.

Dividends are included as investment income on the date that the right to receive payment has been established.

Realised gains and losses on investments are calculated as the difference between the net sales proceeds and original cost. Unrealised gains and losses on investments represent the difference between the valuation of investments at the balance sheet date and their original cost, or if they have been previously revalued, the valuations at the last balance sheet date. The movement in unrealised gains and losses recognised in the period also includes the reversal of unrealised gains and losses recognised in earlier accounting periods in respect of investment disposals in the current period.

### ***Fair value estimation***

The fair value of financial instruments traded in active markets (such as publicly traded securities and derivatives) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets is the current bid price. The fair value of investments that are not traded in an active market is determined using valuation techniques. Various valuation techniques are used including the use of comparable recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants. Where pricing models are used inputs are based



on market related data at the balance sheet date. Where discounted cash flow techniques are used, estimated future cash flows are based on management's best estimates and the discount rate used is a market rate for a similar instrument. The fair value of deposits with credit institutions is their carrying value.

#### ***Derivatives***

Derivatives are valued at fair value using estimated technical assumptions based on the Black Scholes valuation model.

#### ***Taxation***

The Group recognises deferred tax assets and liabilities on a discounted basis to reflect the time value of money. A discount rate has been selected that reflects the yield on government bonds which have a maturity date similar to the likely average period for assets upon which deferred tax liabilities and assets arise. Deferred tax is recognised in respect of all timing differences that have originated but not reversed by the balance sheet date with the exception of deferred tax assets which are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax on changes in the fair value of investments is recognised in the profit and loss account.

Expenses and assets are recognised gross of VAT.

The transfer from the long term business account to the non-technical account is grossed up at the local longer term effective rate of corporation tax where appropriate.

#### ***Foreign currencies***

Transactions in currencies other than the functional currency of the undertaking concerned are recorded at the rate appropriate at the time of accounting for the transaction. Currency balances at the year end are converted at the year end spot rate. For monetary assets and liabilities within the long term funds the resulting exchange adjustments are included within the technical account. For assets and liabilities held outside of the long term fund, any resulting exchange adjustments are taken to the non-technical account.

#### ***Shares in subsidiary undertakings and participating interests***

Investments in shares in subsidiary undertakings and participating interests held in the Company balance sheet are included at cost less any provision for impairment where circumstances indicate that the carrying value may not be recoverable.

#### ***Equity investments***

Equity investments in the Company and Group balance sheet are designated as financial assets held at fair value through profit and loss.

## NOTES TO THE ACCOUNTS

## 1. Net operating expenses and other charges

## 1.1 Other charges

Other charges in the non-technical account represent administrative costs and a write down to reflect the investments at fair value

## 1.2 Analysis of staff costs and average employee numbers

The Group outsourced its administrative function. The third party received £144,000 during the year (2008: £162,000), with no social security costs or pension costs. The Group had no direct employees in the current or prior year.

## 1.3 Auditors remuneration

	Year ended 31 Dec 09 £'000	Year ended 31 Dec 08 £'000
Fees payable to the Company's auditors for the audit of the Company's annual accounts	35	22
Fees payable to the Company's auditor and its associates for other services		
The audit of the Company's subsidiaries pursuant to legislation	22.5	33
Valuation and actuarial services	10	5
	<u>67.5</u>	<u>60</u>

Auditor's remuneration has been shown gross of any VAT charged

## 2. Segmental information – long term business

All reinsurance activities were carried out in Bermuda.

## 3. Investment Return

	Technical account Long term business		Non-technical account	
	Year ended 31 Dec 09 £m	Year ended 31 Dec 08 £m	Year ended 31 Dec 09 £m	Year ended 31 Dec 08 £m
Investment income				
Income from financial assets at fair value through profit and loss				
Continuing Operations	-	-	-	2.0
Discontinued Operations	-	-	-	-
Unrealised gains on financial assets at fair value through profit and loss				
Continuing Operations	-	175.9	-	-
Discontinued Operations	96.7	-	-	-
Investment expense on financial liabilities at amortised cost				
Continuing Operations	-	-	(9.6)	(1.6)
Discontinued Operations	-	-	-	-
Total investment return	<u>96.7</u>	<u>175.9</u>	<u>(9.6)</u>	<u>0.4</u>

**4 Taxation****4.1 Taxation**

	Non-technical account Year ended 31 Dec 09 £m	Non-technical account Year ended 31 Dec 08 £m
<b>UK Corporation Tax</b>		
- Attributable to the Group	(0.2)	(0.4)
- Attributable to the associated undertaking	-	0.5
<b>Total tax charge</b>	<b>(0.2)</b>	<b>0.1</b>

**4.2 Factors affecting tax charge for year**

The standard rate of tax has been determined by using the UK rate enacted for the year in which the losses will be taxed

The tax assessed in the year is higher than the standard rate of corporation tax in the UK and the differences are explained below

	Year ended 31 Dec 09 £m	Year ended 31 Dec 08 £m
Profit/(Loss) on ordinary activities before taxation	2.7	(68.0)
Profit/(Loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 28.5%)	0.8	(19.3)
Effects of		
Lower tax rates on overseas earnings	(16.0)	19.4
Untaxed income and expenses	10.1	-
Movement in unprovided deferred tax asset	5.0	-
Tax Adjustment in respect of prior year	(0.1)	-
<b>Current tax (credit)/ charge for the period</b>	<b>(0.2)</b>	<b>0.1</b>

**4.3 Factors that may affect future tax charges**

£14.9m (2008: £5.9m) of losses are available to offset against future taxable profits. These losses have not been recognised in the balance sheet as further taxable profits against which these losses can be relieved are not yet sufficiently probable.

**5 Directors' emoluments**

No Directors have received emoluments in respect of their services to the Group

**6. Investments****6.1 Group****(a) Investment in associated undertaking – Discontinued Operation**

	Share of capital and reserves 2009 £m	Share of capital and reserves 2008 £m
At 1 January	2.9	1.7
Share of operating profit for the period	1.1	1.7
Share of taxation for the period	(0.3)	(0.5)
Disposals	(3.7)	-
At 31 December	-	2.9

On 24 June 2009, the directors of the Company approved the disposal of its investment in Axial Investment Management Limited to Pearl Group Limited for consideration of £1. The sale was completed on 2 September 2009. The investment was sold resulting in a loss on sale to the Group of £3.7m.

**(b) Other financial investments**

Other financial investments in the consolidated balance sheet comprise of deposits with credit institutions which are designated upon initial recognition as at fair value through profit and loss. These investments have the same fair value and cost.

**(c) Deposits with cedant undertakings**

	31 Dec 09 £m	31 Dec 08 £m
Withheld premium	-	3,561.0

On 22 February 2007, reinsurance arrangements between the Group's reinsurance subsidiary, Opal Reassurance Limited and Pearl Assurance plc, London Life Limited and NPI Limited were approved in principle. These reinsurance treaties were signed on 25 May 2007 and resulted in the reinsurance of the pension annuity in payment liabilities of Pearl Assurance plc, London Life Limited and NPI Limited to the Group, effective from 1 January 2007. The value of the reassured liabilities at the effective date was £3,855m.

The terms of the reinsurance arrangements ensure that the associated premium remains outstanding but is secured against the underlying investments held by Pearl Assurance plc, London Life Limited and NPI Limited. The value of the withheld premium will therefore reduce as claims are settled.

During the year the Group disposed of its investment in Opal Reassurance Limited.

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## (d) Other investments

The Group holds an investment in Phoenix Group Holdings which is held in the books at fair value as follows

	31 Dec 09	31 Dec 08
	£m	£m
Ordinary B shares	16.4	-
Share Based Derivatives	7.1	-
	<u>23.5</u>	<u>-</u>

## 6.2 Company

	Note	31 Dec 09	31 Dec 08
		£m	£m
Investments in subsidiary undertakings	6.2(a)	-	20.3
Investments in group undertakings and participating interests		<u>-</u>	<u>20.3</u>

## (a) Investments in subsidiary undertakings

	2009	2008
	£m	£m
<b>Cost</b>		
At 1 January	70.1	50.1
Additions	-	20.0
At 31 December	<u>70.1</u>	<u>70.1</u>
<b>Impairment</b>		
At 1 January	49.8	-
Impairment charge	20.3	49.8
At 31 December	<u>70.1</u>	<u>49.8</u>
<b>Net Book Value</b>		
At 31 December	<u>-</u>	<u>20.3</u>

The carrying value of shares in subsidiary undertakings has been tested for impairment at the balance sheet date and an impairment of £20.3m has been recognised as the business is deemed to have no value

On 24 June 2009, the directors of the Company approved the disposal of the Group's investment in Opal Reassurance Limited in exchange for shares in Liberty Acquisitions Holdings (International) Company ("Liberty"), a company listed on the Euronext exchange

The sale completed on 2<sup>nd</sup> September 2009

The Group received an initial consideration of 2.48m Ordinary B Shares of Liberty. These shares were deemed to have a fair value of £8.17 per share giving consideration of £20.3m. The Group also received further consideration in the form of a further 2.1m Ordinary B Shares. The receipt of these shares is contingent on the future performance of the Liberty share price.

Immediately following the completion date the Company acquired the Ordinary B Shares of Liberty and the right to receive the further contingent shares from O-Re Holdings (Netherlands) BV under a deferred payment agreement.

The value of these assets acquired by the Company was £32,119,359. The value was determined according to the market price of the issued B Ordinary Shares and a valuation of the entitlement to receive contingent B Ordinary Shares according to the option pricing model.

The carrying value of the Company's investment in O-Re Holdings (Netherlands) BV has been tested for impairment at the balance sheet date. The principal asset of O-Re Holdings (Netherlands) BV is the loan debtor from the Company. On the basis that the Company will be unable to repay the entire loan balance, an impairment charge of £20.3 million has been recognised to write the value of this investment down to £nil.

These consolidated financial statements include the results of Opal Reassurance Limited for the period from 1 January 2009 to 2 September 2009 based upon management accounts for that period.

(b) *Investments in associated undertaking*

On 24 June 2009, the directors of the Company approved the disposal of its investment in Axial Investment Management Limited to Pearl Group Limited for consideration of £1. The sale was completed on 2 September 2009. No profit or loss arose on disposal.

**7. Risk management objectives and policies for mitigating risks in respect of Discontinued Operations**

The Group is no longer involved in any insurance activities. The Group disposed of its entire insurance business on 2<sup>nd</sup> September 2009.

Prior to this date, the risk management objectives and policies of the Group were based on the requirement to protect the principal reporting subsidiary's regulatory capital position, thereby safeguarding reinsurance benefits to cedants, whilst also ensuring the Group could meet its different cash flow requirements. Subject to the above, the Group sought to use available capital in pursuing investment opportunities that met agreed return hurdles for risk taken in order to achieve increased investment returns, generating additional value for shareholders.

In pursuing these goals, the Group deployed financial assets and incurred financial liabilities. Financial assets principally comprised of deposits with credit institutions, cash at bank and in hand. Financial liabilities comprised of borrowing for financing purposes, trade and other payables.

The use of financial instruments naturally exposed the Group to the risks associated with them.

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The Current risks faced by the group are primarily

### Market risk

The company is subject to market risk, by virtue of its holding of Liberty shares. Market risk is the risk that the value of the investment may decline over a period of time due to changes in the economy or wider markets.

### Currency Risk

The company is exposed to currency risk due to holding its assets in one currency (€) and liabilities in a different currency (£). Currency risk is the risk that the investment value will be affected by changes in exchange rates. The Group has exposure to currency risk as a result of having a subsidiary that operates in the Netherlands with share capital denominated in Euro.

### Liquidity Risk

Liquidity risk is the risk that the group can not meet its debts as they fall due.

## 8. Share capital

	31 Dec 09 £	31 Dec 08 £
Allotted, called up and fully paid equity shares		
88,615 ordinary A shares of £1 each	88,615	88,615
35,040 ordinary B shares of £1 each	35,040	35,040
7,247 (2008: 6,497) ordinary C shares of £1 each	7,247	6,497
	<u>130,902</u>	<u>130,152</u>

On 28 December 2009, the Company authorised and issued 750 ordinary C shares of £1 each at their par value.

All types of ordinary share shall rank *pari passu* in all respects except that the ordinary C shares have no voting rights attached to them.

## 9. Reserves and reconciliation of movement in shareholders' funds

### 9.1 Group

	Share capital £m	Profit and loss account £m	Shareholders' funds £m
At 1 January 2008	0.1	(2.1)	(2.0)
Loss after taxation for the year ended 31 December 2008	-	(58.4)	(58.4)
At 31 December 2008	<u>0.1</u>	<u>(60.5)</u>	<u>(60.4)</u>
Profit / (Loss) after taxation for the year ended 31 December 2009			
- Continuing Operations	-	(17.6)	(17.6)
- Discontinued Operations	-	12.7	12.7
At 31 December 2009	<u>0.1</u>	<u>(65.4)</u>	<u>(65.3)</u>

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## 9.2 Company

	Share capital £m	Profit and loss account £m	Shareholders' funds £m
At 1 January 2008	0.1	(6.3)	(6.2)
Loss after taxation for the year ended 31 December 2008	-	(52.4)	(52.4)
At 31 December 2008	0.1	(58.7)	(58.6)
Loss after taxation for the year ended 31 December 2009	-	(39.4)	(39.4)
At 31 December 2009	0.1	(98.1)	(98.0)

## 10 Creditors, amounts falling due within a year

### 10.1 Company

	31 Dec 09 £m	31 Dec 08 £m
Letter of Credit Fee	0.1	
Other accruals	0.1	0.2
Loans due to external parties	90.2	-
Loan From Subsidiary	32.7	
	<u>123.1</u>	<u>0.2</u>

On 24th November 2009, the directors of the Company reached agreement with the providers of the loan finance ("Lenders") that interest would cease to accrue effectively from 2<sup>nd</sup> September 2009 and there would be no capital repayments in the period to 31 December 2010, in relation to the £52.5m and £20.0m loan facilities. The Lenders also agreed to endeavour to reach agreement that will see the Lenders accept the shares held in Liberty following the disposal of Opal Reassurance Limited as full and final settlement of the loan facilities.

On 3 October 2008, the Company entered into a letter of credit and loan facility agreement with two parties. The letter of credit and loan facility was for £20.0m and was valid for 12 months from the date of issue and attracted interest at 1%. On 29 December 2008, the letter of credit and loan facility was fully drawn down by the Company. From this date, interest was accrued at a rate of 8%. Interest ceased to be accrued from 2 September 2009 as governed by the debt standstill agreement signed between the directors and lenders. The lender is unable to demand repayment before the end of the standstill agreement unless there is a change in control of the Company. Interest of £1.1m has been charged in the year. All interest charged since inception has been capitalised.

On 25 April 2007 the Company received a loan of £52.5m from various third parties. The loan accrued interest at a fixed rate of 18% per annum until 3 May 2008 and then at 8% from 04 May 2008 to 02<sup>nd</sup> September 2009 (as governed by debt standstill agreement). All interest charged has been capitalised. Interest of £8.5m (2008: £1.5m) has been charged during the year.



10.2 Group

	31 Dec 09	31 Dec 08
	£m	£m
Loans due to external parties	90.2	80.6
Other creditors including taxation and social security	0.1	1.7
	<u>90.3</u>	<u>82.3</u>

11. Notes to the cash flow statement

11.1 Reconciliation of loss on ordinary activities to net cash outflow from operating activities

	Year ended 31 Dec 09	Year ended 31 Dec 08
	£m	£m
Profit/(Loss) on operating activities	39.5	(69.7)
Adjustments for financing items and items not involving movements of cash		
Decrease in debtors	10.2	-
(Decrease)/increase in creditors	(1.6)	1.2
Increase/(decrease) in accruals	0.1	(0.2)
Interest payable	9.6	1.6
Interest receivable	-	(2.0)
(Profits)/losses relating to long term business funds	(60.0)	69.0
Net cash paid to cedants	(11.3)	(40.8)
Net cash outflow from operating activities	<u>(13.5)</u>	<u>(40.9)</u>

11.2 Analysis of cash holdings included in the Consolidated Balance Sheet

	31 Dec 09	31 Dec 08
	£m	£m
Cash at bank and in hand	1.7	25.0
Add Deposits with credit institutions repayable on demand included within other financial investments	-	1.5
Total cash holdings	<u>1.7</u>	<u>26.5</u>

11.3 Movements in cash holdings and borrowings

	Cash holdings £m	Borrowings £m	Total £m
At 1 January 2009	26.5	(80.6)	(54.1)
Shareholder cash flows in respect of disposal of subsidiary	(11.5)	-	(11.5)
Shareholder cash flows in respect of operations	(13.3)	-	(13.3)
Capitalisation of interest	-	(9.6)	(9.6)
At 31 December 2009	1.7	(90.2)	(88.5)

12. Subsidiary and associated undertakings

The subsidiary undertakings of the Group are as follows

	Country of incorporation and principal place of operation	Class of shares held
O-Re Holdings (Netherlands) BV (holding company)	Netherlands	100% of €1 ordinary shares and voting rights

On 24 June 2009, the directors of the Company approved the disposal of the Group's investment in Opal Reassurance Limited in exchange for shares in Liberty Acquisitions Holdings (International) Company ("Liberty"), a company listed on the Euronext exchange

The Group received an initial consideration of 2.48m Ordinary B Shares of Liberty. These shares were deemed to have a fair value of £8.17 per share giving consideration of £20.3m. The Group also received further consideration in the form of contingent consideration of 2.1m Ordinary B Shares. The receipt of these shares is contingent on the future performance of the Liberty share price. There was a loss on disposal to the Group of £37.6m.

On the same date, the directors of the Company also approved the disposal of its investment in Axial Investment Management Limited to Pearl Group Limited for consideration of £1. The disposal resulted in a loss of £3.7m to the Group.

All of the subsidiary and associated undertakings are included within these Group financial statements.

### **13. Related party transactions**

Xercise Ltd is a related party by virtue of it having common directors

During 2007, Opal Reassurance Limited signed reinsurance treaties with Phoenix Group (formerly called Pearl Group) companies in which H E M Osmond is a director. Under the terms of the treaties, the pension annuity in payment liabilities of Pearl Assurance plc, NPI Limited and London Life Limited were reassured. A premium of £3,855m was payable by the life companies but this was withheld and placed in collateral accounts. The Pearl Group life companies have therefore retained legal ownership of these assets and will continue to hold these assets on their balance sheets. Opal Reassurance Limited had a fixed charge over the assets. These reinsurance treaties were in place throughout the year ended 31 December 2008 and for part of the year ended 31 December 2009. The Group disposed of its investment in Opal Reassurance Limited on 2<sup>nd</sup> September 2009.

On 25 April 2007 the Company received a loan of £52.5m from various third parties. £39.75m of this loan was received from Xercise Limited, a company in which H E M Osmond is a director. A further £12.2m of this loan was received from TDR Capital Nominees Limited, an investing entity. All interest charged on the loans have been capitalised.

On 30 May 2008, Xercise Limited and TDR Capital Nominees Limited entered into an agreement to provide the option to grant a letter of credit facility arrangement with the Company. The letter of credit facility was for £20.0m. Xercise Limited agreed to provide £15m and TDR Capital Nominees Limited agreed to provide £5.0m. The option to grant the letter of credit facility resulted in a fee of £0.1m being charged to the Company for this arrangement and this remains outstanding at 31 December 2009.

On 3 October 2008, the Company exercised the option for the letter of credit arrangement to be granted. For the period that the letter of credit was granted but not drawn, an interest rate of 1% was charged up to 2<sup>nd</sup> September 2009. All interest accounted for has been capitalised.

On 29 December 2008, the Company drew down on the letter of credit arrangement resulting in a loan of £15.0m being granted by Xercise Limited and £5.0m from TDR Capital Nominees Limited.

The Company has received a total of £0.98m over the last 3 years in relation to tax losses surrendered to the associated undertaking, Axial Investment Management Limited.

Axial Investment Management Limited has also provided investment advice during the year to the reinsurance subsidiary of the Group.

### **14. Post balance sheet events**

The consideration received for the sale of Opal comprised 2.48m Ordinary B shares in Phoenix Group Holdings ("Phoenix") as well as contingent consideration of up to 2.1m Ordinary B shares in Phoenix. On 22 June 2010, the Company entered into the Contingent Rights Agreement, the effect of which was to release the Company from ongoing liability to warranty claims under the Share Purchase Agreement and to convert the contingent consideration into 1.97m shares in settlement. The market value of these shares at the date of settlement was £6.71 per share.

### **15. Adjustments required to present the accounts on a break up basis**

Due to the nature of the company's assets and liabilities there has not been a requirement for valuation adjustments to be made to any balances in the accounts other than restating loans due to third parties on a current value basis. The company has no employees and therefore no provisions for severance or redundancy are required.