

IMPALA HOLDINGS LIMITED

Company Registration Number: 06306909

DIRECTORS' REPORT AND FINANCIAL STATEMENTS for the year ended 31 December 2017

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IMPALA HOLDINGS LIMITED

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Strategic report

The Directors present the Strategic report of Impala Holdings Limited (the 'Company') for the year ended 31 December 2017.

Principal activities

The principal activity of the Company is that of an investment company. This will continue to be the principal activity for the foreseeable future.

Result and dividends

The results of the Company for the year are shown in the statement of comprehensive income on page 7. The profit before tax was £343.4m (2016: £209.5m).

Dividends of £400.5m were paid during the year (2016: £483.9m).

Position as at 31 December 2017

The net assets of the Company at 31 December 2017 were £2,551.9m (2016: £2,438.1m). The increase in the period reflects the profit after taxation arising in the period of £359.3m (2016: £240.6m), capital contributions received of £155.0 (2016: £398.1m) offset by dividends paid of £400.5m (2016: £483.9m).

Principal risks and uncertainties

The Phoenix Group applies a consistent methodology for the identification, assessment, management and reporting of risk that includes a high level framework for the management of key risks within each business unit.

The principal risks and uncertainties facing the Company are:

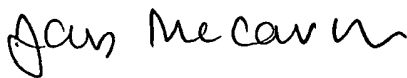
- interest rate risk, since the movement in interest rates will impact the value of interest payable and receivable by the Company;
- liquidity risk, as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements; and
- credit risk, arising from the default of the counterparty to a particular financial asset, with the carrying value of the asset representing the Company's maximum exposure to credit risk. Credit risk is significantly reduced as financial assets are primarily cash, and short term deposits, which are placed with high credit rated banks.

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

Key Performance Indicators ('KPIs')

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

On behalf of the Board



J McConville
Director
29 August 2018

Directors' report

The Directors present their report and the financial statements of the Company for the year ended 31 December 2017.

The Company is incorporated in England as a private limited company. Its registration number is 06306909 and its Registered Office is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

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

Going concern

The Strategic report and the Directors' report summarise the Company's activities, its financial performance and its financial position together with any factors likely to affect its future development. In addition, the Strategic report discusses the principal risks and uncertainties it faces. Note 23 to the financial statements summarises the Company's capital management and risk objectives and policies together with its financial risks.

The Directors have followed the UK Financial Reporting Council's 'Guidance on Going Concern Basis of Accounting and Reporting on Solvency and Liquidity Risks' (issued April 2016) when performing their going concern assessment. As part of their comprehensive assessment of whether the Company is a going concern, the Directors have prepared cash flow and solvency forecasts for the Company for the foreseeable future.

As a result of this review, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Directors

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

J McConville	
R Thakrar	
S True	Appointed 29 August 2018
F Clutterbuck	Resigned 31 March 2018

Secretary

G A Watson acted as Secretary throughout the year.

Disclosure of indemnity

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

Disclosure of information to auditors

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

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

Re-appointment of auditors

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

On behalf of the Board



J McConville
Director
29 August 2018

Statement of Directors' responsibilities

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

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

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

Independent Auditor's report to the members of Impala Holdings Limited

Opinion

We have audited the financial statements of Impala Holdings Limited for the year ended 31 December 2017 which comprise the Statement of comprehensive income, the Statement of financial position, the Statement of cash flows, the Statement of changes in equity and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.



Ed Jervis (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London

31 August

2018

IMPALA HOLDINGS LIMITED

Statement of comprehensive income
for the year ended 31 December 2017

	Notes	2017 £m	2016 £m
Revenue			
Investment income	3	317.4	395.8
Reversal of impairment of investments in subsidiary	18	124.2	1.4
Total income		<u>441.6</u>	<u>397.2</u>
Impairment of investments in subsidiaries	18	-	(32.4)
Administrative expenses	4	(12.8)	(11.1)
Total operating expenses		<u>(12.8)</u>	<u>(43.5)</u>
Profit before finance costs and tax		<u>428.8</u>	<u>353.7</u>
Finance costs	8	(85.4)	(144.2)
Profit for the year before tax		<u>343.4</u>	<u>209.5</u>
Tax credit	9	15.9	31.1
Total comprehensive income for the year attributable to owners		<u><u>359.3</u></u>	<u><u>240.6</u></u>

IMPALA HOLDINGS LIMITED

Statement of financial position as at 31 December 2017

	Notes	As at 31 December 2017 £m	As at 31 December 2016 £m
* Equity attributable to owners			
Share capital	11	478.0	478.0
Share premium	12	1,600.0	1,600.0
Capital contribution	13	759.8	814.3
Retained earnings		(285.9)	(454.2)
Total equity		2,551.9	2,438.1
Non-current liabilities			
Long-term borrowings	14	3,864.7	3,780.0
Total non-current liabilities		3,864.7	3,780.0
Current liabilities			
Current tax	15	1.9	1.9
Accruals	16	0.7	-
Amounts due to Group entities	17	2.2	22.1
Other payables		1.3	1.7
Total current liabilities		6.1	25.7
Total liabilities		3,870.8	3,805.7
Total equity and liabilities		6,422.7	6,243.8
Non-current assets			
Investments in subsidiaries	18	6,323.4	6,049.2
Deferred tax	15	3.1	-
Total non-current assets		6,326.5	6,049.2
Current assets			
Amounts due from Group entities	19	36.8	15.4
Financial assets	20	9.4	129.2
Cash and cash equivalents	21	50.0	50.0
Total current assets		96.2	194.6
Total assets		6,422.7	6,243.8

On behalf of the Board



J McConville
Director
29 August 2018

IMPALA HOLDINGS LIMITED

Statement of cash flows
for the year ended 31 December 2017

	Notes	2017 £m	-2016 £m
Cash flows from operating activities			
Cash (absorbed)/generated by operations	22	(82.5)	20.4
Net cash flows from operating activities		<u>(82.5)</u>	<u>20.4</u>
Cash flows from investing activities			
Disposal of financial assets		120.3	1.2
Dividends received from subsidiaries		148.2	392.5
Return of capital contribution by subsidiary		5.0	30.0
Capital contribution to subsidiary		(155.0)	(372.8)
Repayment of loans made to group entities		-	3.2
Net cash flows from investing activities		<u>118.5</u>	<u>54.1</u>
Cash flows from financing activities			
Proceeds of new borrowings from Group entities		-	74.1
Proceeds of capital contribution		-	372.8
Repayment of borrowings from Group entities		-	(34.9)
Dividends paid		(191.0)	(372.3)
Capital contribution to subsidiary		155.0	-
Interest paid on borrowings from Group entities		-	(64.2)
Interest paid on subordinated loans treated as equity		-	-
Net cash flows from financing activities		<u>(36.0)</u>	<u>(24.5)</u>
Net increase in cash and cash equivalents		<u>0.0</u>	<u>50.0</u>
Cash and cash equivalents at the beginning of the year		50.0	-
Cash and cash equivalents at the end of the year		<u>50.0</u>	<u>50.0</u>
<u>Supplementary disclosures on cash flow from operating activities</u>			
Interest received		<u>0.4</u>	<u>1.8</u>

IMPALA HOLDINGS LIMITED

Statement of changes in equity for the year ended 31 December 2017

	Share capital (note 11) £m	Share premium (note 12) £m	Capital contribution (note 13) £m	Retained earnings £m	Total £m
At 1 January 2017	478.0	1,600.0	814.3	(454.2)	2,438.1
Total comprehensive income for the year	-	-	-	359.3	359.3
Capital contributions received	-	-	155.0	-	155.0
Dividends paid (note 10)	-	-	(209.5)	(191.0)	(400.5)
At 31 December 2017	478.0	1,600.0	759.8	(285.9)	2,551.9

	Share capital (note 11) £m	Share premium (note 12) £m	Capital contribution (note 13) £m	Retained earnings £m	Total £m
At 1 January 2016	478.0	1,600.0	527.8	(322.5)	2,283.3
Total comprehensive income for the year	-	-	-	240.6	
Capital contributions received	-	-	398.1	-	398.1
Dividends paid (note 10)	-	-	(111.6)	(372.3)	(483.9)
At 31 December 2016	478.0	1,600.0	814.3	(454.2)	2,438.1

The capital contribution is considered a distributable reserve with no restrictions.

Notes to the financial statements**1. Accounting policies****(a) Basis of preparation**

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

The financial statements are separate financial statements and the exemptions in paragraph 10 of IAS 27 *Consolidated and Separate Financial Statements* and section 401 of the Companies Act 2006, have been used not to present consolidated financial statements. The results of the Company are consolidated into the accounts of the Company's ultimate parent Phoenix Group Holdings, a company incorporated in the Cayman Islands, registered at Po Box 309, Ugland House, Grand Cayman KY1-1104, Cayman Islands and resident in the United Kingdom.

Statement of compliance

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

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

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

(b) Critical accounting estimates and judgements

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

Critical accounting estimates are those which involve the most complex or subjective judgements or assessments. The areas of the Company's business that typically require such estimates are the determination of impairment tests for investments in and loans to Group entities, and income taxes.

Fair value of financial assets and liabilities

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

Impairment of investments in subsidiaries and loans to Group entities

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

1. Accounting policies (continued)

(b) Critical accounting estimates and judgements (continued)

Income taxes

Deferred tax assets are recognised to the extent that they are regarded as recoverable, that is to the extent that, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which the losses can be relieved. The UK taxation regime applies separate rules to trading and capital profits and losses. The distinction between temporary differences that arise from items of either a capital or trading nature may affect the recognition of deferred tax assets. Any judgements made, and uncertainties considered, in arriving at the carrying values of deferred tax assets and liabilities in the financial statements are discussed in note 15.

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

(c) Borrowings

Interest-bearing borrowings are recognised initially at fair value less any attributable transaction costs. The difference between initial cost and the redemption value is amortised through the statement of comprehensive income over the period of the borrowing using the effective interest method.

(d) Income tax

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

Current tax is the expected tax payable on the taxable income for the year, using tax rates and laws enacted or substantively enacted at the date of the statement of financial position together with adjustments to tax payable in respect of previous years, except to the extent that it relates to items recognised in the statement of changes in equity, in which case it is recognised in that statement.

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

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

(e) Investments in subsidiaries

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

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

(f) Financial assets

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

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

Equities, fixed and variable rate income securities and open ended investment companies are designated at fair value through profit or loss and accordingly are stated in the statement of financial position at fair value. They are designated at fair value through profit or loss because they are managed and evaluated on a fair value basis in accordance with the Company's stated risk management policies. These instruments are recognised initially at fair value (transaction costs are expensed) and subsequently are re-measured to fair value.

1. Accounting policies (continued)

(f) Financial assets (continued)

Impairment of financial assets

The Company assesses at each period end whether a financial asset or group of financial assets held at amortised cost is impaired. The Company first assesses whether objective evidence of impairment exists for financial assets. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in the collective assessment of impairment.

Fair value estimation

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

For units in unit trusts and shares in open-ended investment companies, fair value is by reference to published bid-values. The fair value of receivables and floating rate and overnight deposits with credit institutions is their carrying value. The fair value of fixed interest-bearing deposits is estimated using discounted cash flow techniques.

(g) Cash and cash equivalents

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

(h) Share capital and capital contributions

Ordinary share capital

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

Capital contributions

Capital contributions received by the Company and which contain no restrictions are recognised directly in the statement of changes in equity as a distributable reserve.

(i) Income recognition

Investment income comprises interest, dividends, and fair value gains and losses on financial assets.

(j) Finance costs

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

(k) Dividends

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

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

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

(l) Events after the reporting period

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

(m) Segmental reporting

The Company has one reportable segment. It is exempt from providing an analysis of operating segments as required by IFRS 8 *Operating Segments*.

1. Accounting policies (continued)

(o) Assets held for sale

Assets are classified separately as held for sale in the statement of financial position when their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is only met when the sale is highly probable, the asset is available for immediate sale in its present condition, and management is committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Assets classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

2. Financial information

The financial statements for the year ended 31 December 2017, set out on pages 7 to 23 were authorised by the Board of Directors for issue on 29 August 2018.

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

- **Amendments to IAS 7 Disclosure Initiative**

The Company has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Company's liabilities arising from financing activities consist of borrowings (note 14). Consistent with the transition provisions of the amendments, the Company has not disclosed comparative information for the prior period. Apart from the additional disclosure in note 14 the application of these amendments has had no impact on the Company's financial statements.

- **Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses**

The Company has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Company's financial statements as the Company's existing approach to assessing the sufficiency of future taxable profits is consistent with that required under the amended standard.

- **Annual Improvements to IFRSs 2014-2016 Cycle**

The amendments to IFRS 12 Disclosure of Interests in Other entities included in the Annual Improvements to IFRSs 2014-2016 Cycle are not applicable to the Company.

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

- **IFRS 9 Financial Instruments (2018).**

Under IFRS 9, all financial assets will be measured either at amortised cost or fair value and the basis of classification will depend on the business model and the contractual cash flow characteristics of the financial assets. In relation to the impairment of financial assets, IFRS 9 requires the use of an expected credit loss model, as opposed to the incurred credit loss model required under IAS 39. The expected credit loss model will require the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has performed a high-level impact assessment to consider the impact of IFRS 9. Overall, the Company expects no significant impact on its statement of financial position and equity from applying both the classification and expected credit loss requirements of the standard. A process has been established to calculate the expected credit loss allowance for debt instruments held at amortised cost including loans and other receivables. This considers both qualitative and quantitative information and for other receivables past due information and past impairments of balances are used to determine an appropriate expected credit loss allowance. Based upon information currently available no material expected credit loss allowances are expected.

2. Financial information (continued)

- IFRS 15 Revenue from contracts with Customers (2018).
IFRS 15 establishes a single comprehensive framework for determining whether, how and when revenue is recognised. The standard does not apply to financial instruments within the scope of IAS 39 Financial Instruments: Recognition and Measurement. The Company does not consider that the application of IFRS 15 will have a significant impact on the financial position and/or financial performance of the Company.
- Annual Improvements to IFRSs 2014-2016 Cycle (2018).
The Annual Improvements include amendments to IFRS 1 and IAS 28 which are not yet mandatorily effective for the Company. The package also includes amendments to IFRS 12 which is mandatorily effective for the Company in the current year. The Company does not anticipate that the application of the amendments in the future will have any impact on the Company's financial statements as the Company is neither a first-time adopter of IFRS nor a venture capital organisation. Furthermore, the Company does not have any associate or joint venture that is an investment entity.
- IFRIC 23 Uncertainty over Income Tax Treatments (2019).
This interpretation clarifies the accounting for income tax treatments that have yet to be accepted by tax authorities, whilst also aiming to enhance transparency. The Company does not consider that the application of IFRIC 23 will have a significant impact on the financial position and/or financial performance of the Company.

Changes excluded from above list as potentially not applicable:

- IFRIC 22 Foreign Currency Transactions and Advance Consideration (2018).
- Classification and measurement of share-based payment transactions (Amendments to IFRS 2) (2018).
- Transfers of Investment Property (Amendments to IAS 40) (2018).
- IFRS 16 Leases (2019).
- IFRS 17 Insurance contracts (2021).
- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28) (Effective date to be determined).

3. Investment income

	2017 £m	2016 £m
Investment income		
Interest income on loans and receivables	-	0.7
Interest income on financial assets designated at fair value through profit or loss on initial recognition	0.4	1.8
Dividend income	316.6	392.5
Investment income	317.0	395.0
Fair value gains/(losses)		
Financial assets at fair value through profit or loss		
Designated upon initial recognition	0.4	0.8
Investment income	317.4	395.8

Interest income on loans and receivables includes interest of £nil (2016: £0.7m) on loans to Group entities.

Dividend income includes dividends received from subsidiaries of £316.6m, £148.2m was received in cash and £168.4m was received as a dividend in specie (2016: £392.5m, all of which was received in cash).

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4. Administrative expenses

	2017 £m	2016 £m
Recharged service and project costs	12.8	11.1

5. Employee information

The Company has no employees. Services are provided by Pearl Group Management Services Limited and Pearl Group Services Limited.

6. Directors' remuneration

The Directors received the following for their qualifying services as Directors of the Company.

	2017 £	2016 £
Salaries and other short-term benefits	89,915	90,986
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	89,915	90,986
Share-based payments	47,498	46,111
Contributions to money purchase pension scheme	1,288	1,246
Number of Directors who are members of a money purchase pension scheme	1	1
Number of Directors who exercised share options during the year	3	3

The Directors are employed by either Pearl Group Management Services Limited or Pearl Group Services Limited. The total compensation paid to the Directors of the Company relates to services to the Company, irrespective of which entity within the Phoenix Group has paid the compensation.

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

7. Auditor's remuneration

The remuneration of the auditor of the Company included in the financial statements was £0.1m (2016: £0.1m).

8. Finance costs

	2017 £m	2016 £m
Interest expense on borrowings at amortised cost	85.4	144.2

Interest expense on borrowings at amortised cost includes interest of £85.4m (2016: £144.2m) on loans from Group companies.

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9. Tax credit

9.1 Current year tax credit

	2017 £m	2016 £m
Current tax:		
UK Corporation tax	(13.7)	(29.8)
Adjustments in respect of prior years	0.9	(1.3)
Total current tax	<u>(12.8)</u>	<u>(31.1)</u>
Deferred tax:		
Origination and reversal of temporary differences	(3.5)	
Change in the rate of UK corporation tax	0.4	-
Total deferred tax	<u>(3.1)</u>	<u>-</u>
Total tax credit	<u><u>(15.9)</u></u>	<u><u>(31.1)</u></u>

9.2 Reconciliation of tax credit

	2017 £m	2016 £m
Profit before tax	<u>343.3</u>	<u>209.5</u>
Tax at standard UK rate of 19.25% (2016: 20.00%)	66.1	41.9
Non-taxable income and gains	(60.9)	(78.6)
Adjustment to shareholder tax charge in respect of prior years	0.9	(1.3)
Non-taxable impairment of investments in subsidiaries	(23.9)	6.2
Disallowable expenses	0.6	0.7
Deferred tax rate change	0.4	-
Current year losses not valued	0.9	-
Total tax credit for the year	<u><u>(15.9)</u></u>	<u><u>(31.1)</u></u>

10. Dividends paid

	2017 £m	2016 £m
Dividends paid	<u>400.5</u>	<u>483.9</u>

During the year, the Board declared an interim in-specie dividend of £209.5m (2016: £111.6m) and an interim cash dividend of £191.0m (2016: £372.3m) to its parent, Phoenix Life Holdings Limited.

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11. Share capital

	2017 £m	2016 £m
Issued and fully paid:		
40,000,200 (2016: 40,000,200) ordinary 'A' shares of £1 each	40.0	40.0
438,000,000 (2016: 438,000,000) ordinary 'B' shares of £1 each	438.0	438.0
2 (2016: 2) ordinary 'C' shares of £1 each	-	-
6 (2016: 6) ordinary 'D' shares of £1 each	-	-
	<u>478.0</u>	<u>478.0</u>

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

The holders of the A and B ordinary shares are entitled to:

- Receive dividends, at the discretion of the Directors out of the profits of the Company that are available for distribution and are resolved to be distributed;
- One vote for every share of which they are the holder.

The holders of the C and D ordinary shares are entitled to:

- No right to receive dividends out of the profits of the Company and no right otherwise to share in the profits of the Company;
- No right to vote.

On a distribution of the assets of the Company among its members on a winding up or other return of capital (other than a redemption or purchase by the Company of its own Shares) the A ordinary shares, the B ordinary shares, the C ordinary shares and the D ordinary shares shall rank pari passu and accordingly the holders of the A ordinary shares, the B ordinary shares, the C ordinary shares and the D ordinary shares shall out of the remaining assets available for distribution to the holders of such shares be entitled to participate in such proportion of such surplus in proportion to the aggregate Issue Price of the A ordinary shares, the B ordinary shares, the C ordinary shares and D ordinary shares held by each of them as if they were all shares of the same class.

12. Share premium

	2017 £m	2016 £m
At 1 January and 31 December	<u>1,600.0</u>	<u>1,600.0</u>

13. Capital contribution

	2017 £m	2016 £m
At 1 January	814.3	527.8
Additions	155.0	398.1
Distribution	(209.5)	(111.6)
At 31 December	<u>759.8</u>	<u>814.3</u>

During the year the Company received capital contributions of £155.0m (2016: £398.1m) from its parent, Phoenix Life Holdings Limited ('PLHL'), in the form of cash. The Company distributed £209.5m (2016: 111.6m) to PLHL during the year.

These capital contributions have been treated as a distributable reserve with no restrictions.

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14. Borrowings

	Carrying value		Fair value	
	2017 £m	2016 £m	2017 £m	2016 £m
Amounts owed to Group entities :				
(i) Pearl Group Holdings (No. 1) Limited	2,676.8	2,618.2	2,676.8	2,588.1
(ii) Pearl Life Holdings Limited	1,187.9	1,161.8	1,187.9	1,148.4
Total borrowings	<u>3,864.7</u>	<u>3,780.0</u>	<u>3,864.7</u>	<u>3,736.5</u>
Amounts due for settlement within 12 months	-	-		
Amounts due for settlement after 12 months	<u>3,864.7</u>	<u>3,780.0</u>		

Amounts owed to Group entities comprise:

- (i) The Company entered into a loan facility with Pearl Group Holdings (No. 1) Limited. The loan accrues interest of six month LIBOR plus 1.75% and has a maturity date of 31 December 2021. Interest of £58.6m was capitalised in the year, and no payments made or advancements were received.
- (ii) The Company entered into a loan facility with Pearl Life Holdings Limited. The loan accrues interest of six month LIBOR plus 1.75% and has a maturity date of 31 December 2021. Interest of £26.1m was capitalised in the year, and no payments made or advancements were received.

Determination of fair value and fair value hierarchy of long-term borrowings

Borrowings are categorised as Level 3 financial instruments. The fair value of borrowings with no external market is determined by internally developed discounted cash flow models using a risk adjusted discount rate corroborated with external market data where possible.

There were no level 1 or level 2 borrowings in 2017 or 2016.

There were no fair value gains or losses recognised in other comprehensive income.

15. Tax assets and liabilities

	2017 £m	2016 £m
Current Tax		
Current tax payable	<u>1.9</u>	<u>1.9</u>

Movement in deferred tax assets and liabilities:

Year ended 31 December 2017

	1 Jan £m	Recognised in the income statement £m	31 Dec £m
Trading losses	<u>-</u>	<u>3.1</u>	<u>3.1</u>
		2017 £m	2016 £m
Deferred tax assets have not been recognised in respect of:			
Tax losses carried forward		<u>1.2</u>	<u>0.4</u>

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15. Tax assets and liabilities (continued)

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

The Finance Act 2016 reduced the rates of corporation tax from 20% to 19% in April 2017 and to 17% from April 2020. Consequently a blended rate of tax has been used for the purposes of providing for deferred tax in these financial statements.

On 29 March 2017 the UK Government triggered Article 50 initiating a 2 year process for leaving the EU. There is some uncertainty about how the existing tax legislation will apply after the UK's exit. No changes are required to the measurement of tax in these financial statements but this will be monitored and reassessed at each reporting period as negotiations continue.

16. Accruals

	2017 £m	2016 £m
Accrued interest on inter-company loans	0.7	-

17. Amounts owed to Group entities

	2017 £m	2016 £m
Other borrowings owed to Group entities	2.2	22.1

Amounts owed to Group entities consists of £2.2m short-term intra-group borrowings (2016: £1.4m) and group relief payable of £nil (2016: £20.7m).

18. Investments in subsidiaries

	2017 £m	2016 £m
Cost		
At 1 January	7,019.7	6,651.6
Additions	155.0	398.1
Return of capital contribution by subsidiary	(5)	(30.0)
At 31 December	7,169.7	7,019.7
Impairment		
At 1 January	(970.5)	(939.5)
Impairment charge	-	(32.4)
Reversal of impairment charge	124.2	1.4
At 31 December	(846.3)	(970.5)
Carrying amount		
At 31 December	6,323.4	6,049.2

The Company paid capital contributions into its subsidiary, Pearl Life Holdings Limited during the year of £155.0m, which comprised cash of £155.0m (2016: £372.8m) and derivatives with a fair value of £nil (2016: £25.3m), and received £5.0m as a return of capital contribution from Pearl Group Management Services Limited during the year (2016: £30.0m).

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18. Investments in subsidiaries (continued)

Where indicators of impairment have been identified, the carrying value of the Company's investments in subsidiaries is tested for impairment at the period end. During the year impairments of £nil and reversal of impairments of £124.2m were made (2016: £32.4m impairments and reversal of impairments of £1.4m).

The value in use has been used as the recoverable amount and this has been determined using the present value of the future cash flows of the Company's subsidiaries including the in-force long-term business, the asset management business and the service company. The cash flows used in this calculation are consistent with those adopted by management in the operating plan and, beyond the period of this plan, reflect the anticipated run-off of the in force life insurance business. Future cash flows have been valued using discount rates which reflect the risks inherent to each cash flow. For the other subsidiaries, the value in use has been determined using net assets values.

The subsidiaries of the Company at 31 December 2017 were as follows:

	Country of incorporation and principal place of operation	Class of shares held (wholly-owned unless otherwise indicated)
BA (FURBS) Limited *	UK	Ordinary shares of £1
Britannic Group Services Limited *	UK	Ordinary shares of £1
CH Management Limited ∞	USA	Ordinary shares of \$1
IH (Jersey) Limited ∂	Jersey	Ordinary shares of £1
Pearl Group Holdings (No. 1) Limited †	UK	Ordinary shares of £0.05
Pearl Group Management Services Limited *	UK	Ordinary shares of £1
Pearl Group Secretariat Services Limited *	UK	Ordinary shares of £1
Pearl Life Holdings Limited *	UK	Ordinary shares of £1
Pearl RLG Limited *	UK	Ordinary shares of £1
PG Dormant (No 3) Limited *	UK	Ordinary shares of £1
Phoenix Customer Care Limited *	UK	Ordinary shares of £1
Scottish Mutual Customer Care Limited *	UK	Ordinary shares of £1

The Company also owns the following principal subsidiaries through the subsidiary companies listed above:

Phoenix Life Limited *	UK	Ordinary shares of £1
Phoenix ER1 Limited *	UK	Ordinary shares of £1
Phoenix ER2 Limited *	UK	Ordinary shares of £1
Phoenix ER3 Limited *	UK	Ordinary shares of £1
Phoenix ER4 Limited *	UK	Ordinary shares of £1
Phoenix Unit Trust Managers Limited *	UK	Ordinary shares of £1
		Ordinary shares of £0.01 and
PA (GI) Limited *	UK	Deferred shares of £0.25
SunLife Limited *	UK	Ordinary shares of £1

The companies are principally engaged in the transaction of long term insurance or related business. All holdings represent 100% of the normal issued share capital, unless stated otherwise.

* : The registered address of these companies is 1 Wythall Green Way, Wythall, Birmingham, B47 6WG.

∞ : The registered address of this company is 103 Foulk Road, Suite 202, Wilmington, DE 19803.

∂ : The registered address of this company is 1st Floor, 32 Commercial Street, St Helier, Jersey, JE2 3RU.

† : The registered address of this company is Juxon House, 100 St Pauls Churchyard, London, EC4M 8BU.

19. Amounts due from Group entities

	2017 £m	2016 £m
Amounts due from Group entities	36.8	15.4

Amounts due from Group entities consists of £25.5m short-term intra-group borrowings (2016: £15.4m) and group relief receivable of £11.3m (2016: £nil).

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20. Financial assets

	2017 £m	2016 £m
Financial assets at fair value through profit or loss		
Designated upon initial recognition		
Open ended investment companies – level 1	9.4	111.9
Corporate bonds – level 2	-	17.3
	<u>9.4</u>	<u>129.2</u>

All amounts are recoverable within 12 months.

Determination of fair value and fair value hierarchy of financial assets

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

The corporate bonds are categorised as Level 2 financial instruments. Financial instruments traded in active markets with less depth or wider bid-ask spreads which do not meet the classification as Level 1 inputs are classified as Level 2. The fair values of financial instruments not traded in active markets are determined using valuation techniques with observable market inputs. Where pricing models are used, inputs are based on market related data at the period end.

There were no level 3 financial assets in 2017 or 2016.

21. Cash and cash equivalents

	2017 £m	2016 £m
Bank and cash balances	<u>50.0</u>	<u>50.0</u>

The carrying amounts approximate to fair value at the period end.

22. Cash flows from operating activities

	2017 £m	2016 £m
Profit for the year before tax	343.4	209.5
Adjustments to reconcile profit for the year to net cash inflow from operating activities in respect of:		
Dividends received	(316.6)	(392.5)
Interest income on loans and receivables	-	(0.8)
Impairment of investment in subsidiary	(124.2)	(1.4)
Reversal of impairment of investment in subsidiary	-	32.4
Fair value gains	(0.4)	(0.8)
Interest expense on borrowings	85.4	144.2
Changes in operating assets and liabilities	(70.1)	29.8
Cash (absorbed)/generated by operations	<u>(82.5)</u>	<u>20.4</u>

23. Capital and risk management

The Company's capital comprises share capital and all reserves. At 31 December 2017, total capital was £2,551.9m (2016: £2,438.1m). The movement in capital in the year comprises the profit after taxation arising in the period of £359.3m (2016: £240.6m), capital contribution received of £155.0m (2016: £398.1m) offset by dividends paid of £400.5m (2016: £483.9m).

The Company's capital is monitored by the Directors and managed on an on-going basis via a monthly review process to ensure that it remains positive at all times.

The principal risks and uncertainties facing the Company are:

- interest rate risk, since the movement in interest rates will impact the value of interest payable and receivable by the Company;
- liquidity risk, as a result of normal business activities, specifically the risk arising from an inability to meet short-term cash flow requirements; and
- credit risk, arising from the default of the counterparty to a particular financial asset, with the carrying value of the asset representing the Company's maximum exposure to credit risk. Credit risk is significantly reduced as financial assets are primarily cash, and short term deposits, which are placed with high credit rated banks.

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

24. Related party transactions

The Company enters into transactions with related parties in its normal course of business. These are at arm's length on normal commercial terms.

In the year ended 31 December 2017 the Company received dividends from its subsidiaries of 148.2m (2016: £392.5m).

The Company paid a dividend of £191.0m (2016: £372.3m) to its immediate parent.

Amounts due to related parties

	2017 £m	2016 £m
Loans due to subsidiaries	3,864.7	3,780.0
Other amounts due to subsidiaries	1.4	1.1
Other amounts due to fellow subsidiaries	0.8	21.0

Amounts due from related parties

	2017 £m	2016 £m
Other amounts due from ultimate parent	3.8	3.8
Other amounts due from parent	-	0.1
Other amounts due from subsidiaries	11.6	3.9
Other amounts due from fellow subsidiaries	21.4	7.6

Key management compensation

The total compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 6.

Parent and ultimate parent entity

Information on the Company's parent and ultimate parent is given in note 25.

25. Other information

The Company's principal place of business is the United Kingdom. The Company's immediate parent is Phoenix Life Holdings Limited and its ultimate parent is Phoenix Group Holdings, a company incorporated in the Cayman Islands and resident in the United Kingdom. A copy of the financial statements of Phoenix Group Holdings can be obtained from the Company Secretary, The Phoenix Group, Juxon House, 100 St Paul's Churchyard, London, EC4M 8BU.