Liberty Acquisition Holdings (International) Company

*A Special Purpose Acquisition Company*

# Shareholder Presentation

**July 2009**

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# Contents

# Introduction to the presentation team

## Pearl

### Hugh Osmond (Vice Chairman)

- Founder and Executive Director of Pearl Group, and led the £1.1bn acquisition of life assurance assets of HHG plc and the £5bn acquisition of Resolution
- Previously founder of Punch Group and Executive Chairman 1997-2001; co-led the acquisition and listing of PizzaExpress in 1993

### Jonathan Moss (CEO)

- Previously FD, Chief Actuary of AMP Life and Appointed Actuary of London Life and National Provident Life

### Simon Smith (CFO)

- Chartered accountant with 18 years experience in fund management and life insurance sectors, specifically in tax management and structuring

- Proven track record in delivering strong operational performance and transaction benefits
- Over £600m of value creation since 2005 from previous transactions, with further opportunities identified within existing business

## Liberty Acquisition Holdings (International)

### Martin Franklin

- Chairman and Chief Executive Officer, Jarden Corporation (NYSE; JAH) a Fortune 500 company
- Currently a director of GLG, one of the largest alternative asset managers in Europe with over $15bn in net AuM
- Chairman of Liberty Acquisition Holdings Corp.
- Also a principal and executive officer of a number of private investment entities

- Special purpose acquisition company, formed in 2008 to make acquisitions outside North America in any industry sector
- Liberty's founders, Nicolas Berggruen and Martin Franklin, each have over 20 years of experience with both public and private investments, including raising three of the largest SPACs to date
  - In November 2007, Freedom completed the reverse merger with GLG Partners for $3.4 billion
  - In December 2007, Liberty U.S. completed a $1,035 million IPO of its securities
  - In February 2008, Liberty Acquisition Holdings (International) completed a €600 million IPO of its securities

# 1. Overview of Liberty Transaction

# Liberty acquisition of Pearl: Highlights

- Liberty believes that Pearl represents a unique opportunity to take advantage of market events and acquire an established business at a distressed valuation
- Injection of up to €603m (£514m) of new funds by Liberty enables restructuring of liabilities (debt write-downs and other restructuring) facilitating c.£560m of additional value creation
  - Combined effect of cash injection and restructuring will be to strengthen the group's balance sheet by over £1bn
- Significant discount to value of Pearl's base-case cashflows and EV, before taking account of potential upsides within existing business or acquisition opportunities
- At Liberty share price of €10, 50% discount to estimated proforma net Embedded Value ("EV") at completion of c.€20 per share – Liberty has conducted extensive due diligence on this EV
- Existing Pearl shareholders will invest a further £75m in Pearl and will receive new Liberty shares at completion

Following its due diligence, Liberty is convinced:

- Requirement for further capital in Pearl triggered by recent extreme market and regulatory events - business remains fundamentally attractive
- Pearl's closed life fund consolidator model is well proven, with strong and resilient long-term cashflows
- Sector opportunities are the greatest in recent memory, providing significant equity upside for the recapitalised Pearl, as the largest consolidator of closed life funds in the UK

Note: Based on exchange rate of €1.1739/£ (at 30 June 2009)

# Pearl recapitalisation

- Liberty has undertaken extensive due diligence and fully understands the reasons for Pearl's recent financial stress:
  - Acquisition of Resolution plc (in May 08) was highly leveraged and utilised the substantial surplus shareholder funds built up within Pearl over previous two years
  - Post Lehman's collapse, investment grade bonds, previously seen as high quality, suffered unprecedented falls far beyond range specified by regulatory stress tests
  - Extreme price moves of long-dated gilts and swaps caused significant pressure on one of the Pearl pension funds
  - Stress tests were strengthened and regulatory tolerance for debt reduced as a consequence of turbulent market conditions
- As a result, Pearl was required to retain cash at subsidiary level, inhibiting ability to service HoldCo debt
- Despite this, the underlying life companies remained generally financially strong and major improvements have been achieved since 31 December 2008
- Injection of Liberty cash and liability reductions will allow a recapitalisation of Pearl to satisfy regulatory requirements and help release certain regulatory restrictions imposed in 2008
- The recapitalisation also provides additional security for Pearl's policyholders and further increases investment flexibility

**Underlying cash creation, profitability and value of the business remains strong and resilient**

# Overview of Liberty transaction

- Liberty acquiring 100% of Pearl for shares
- At €10 per Liberty share, Pearl is valued at £1,126m(1), representing 50% of proforma net EV of £2,266m
- Liberty injects cash of up to €603m (£514m) to increase financial strength and flexibility
- Other restructuring results in liability reductions totalling £557m (bank debt and other liabilities)
  - Amended credit facilities provide extended maturities, no mandatory repayments before 2011 and reduced interest spreads
- Resultant ownership is 59.7% existing Liberty shareholders, 29.8% existing Pearl shareholders(2) and 10.5% Pearl lenders and other stakeholders (c.132m shares before dilution)
  - c.90% of shares to be held by existing Pearl shareholders and lenders subject to lock-up for 12 months
  - Existing Pearl shareholders and lenders eligible for up to additional 35m shares subject to earn-out(3)
  - Up to 59m shares issuable via various warrants and convertibles at higher prices
- Benefits for policyholders including increased capital and security
- EGM for Liberty shareholders to be held in second half of July 2009
- Will seek a primary listing on LSE as soon as practicable

(1) Based on share price of €10 and 132.2m shares outstanding post completion (pre-dilution)
(2) Including shares owned by management
(3) 1m additional shares will be issued to Liberty sponsors or other parties as a fee in connection with the Contingent Subscription Agreement; also see slide 39
Note: Based on exchange rate of €1.1739/£ (at 30 June 2009)

# Closed life companies have demonstrated attractive returns and low sensitivity to market movements

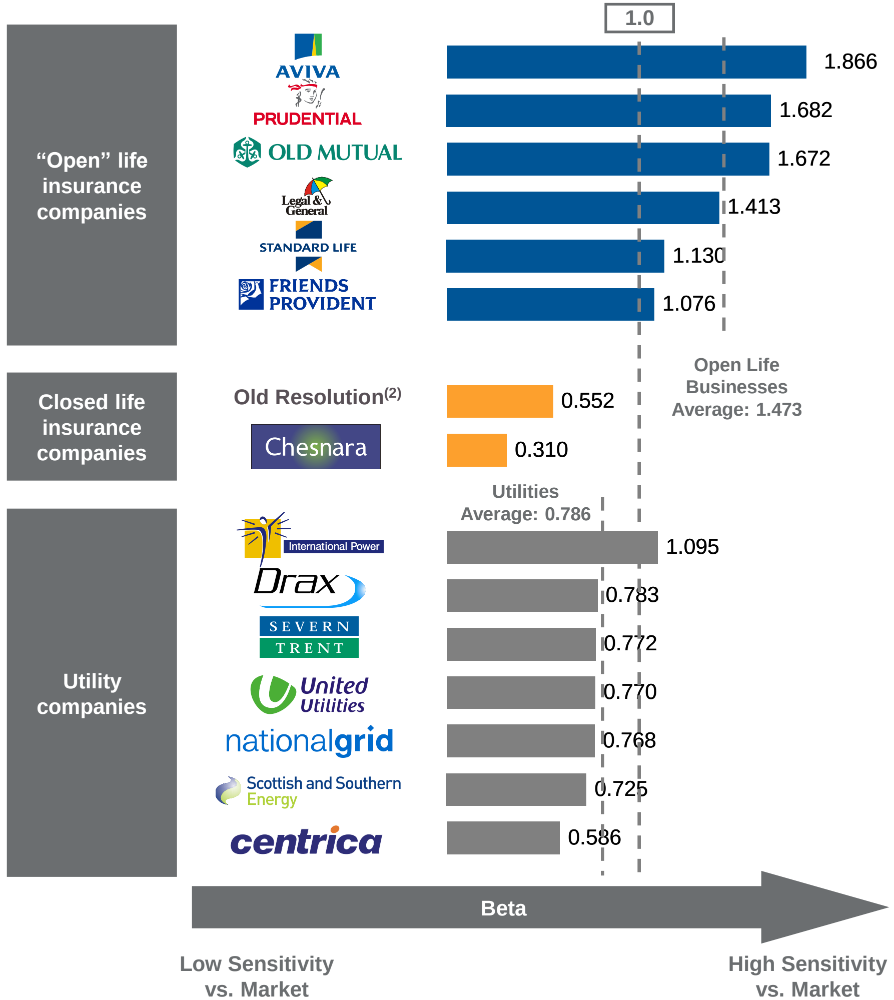
## Higher returns than "open" life companies and the FTSE 100


Source: Datastream 5 years TSR (as of 30 June 2009)

Note: Resolution Plc's Total Shareholder Return up to 29 April 2008 when it was acquired by Pearl Group. Standard Life TSR since date of the IPO (07 July 2006)

(1) Index of other UK life insurers is the average of the TSRs of Aviva, Friends Provident, Legal & General, Prudential, Standard Life, and Old Mutual

## Beta comparison




Source: Bloomberg weekly raw beta for the last three years (between 30/06/2006 and 30/06/2009)

(2) Calculated using data between 29/04/05 and 29/04/08 (last day of trading of Resolution plc, subsequently acquired by Pearl Group)

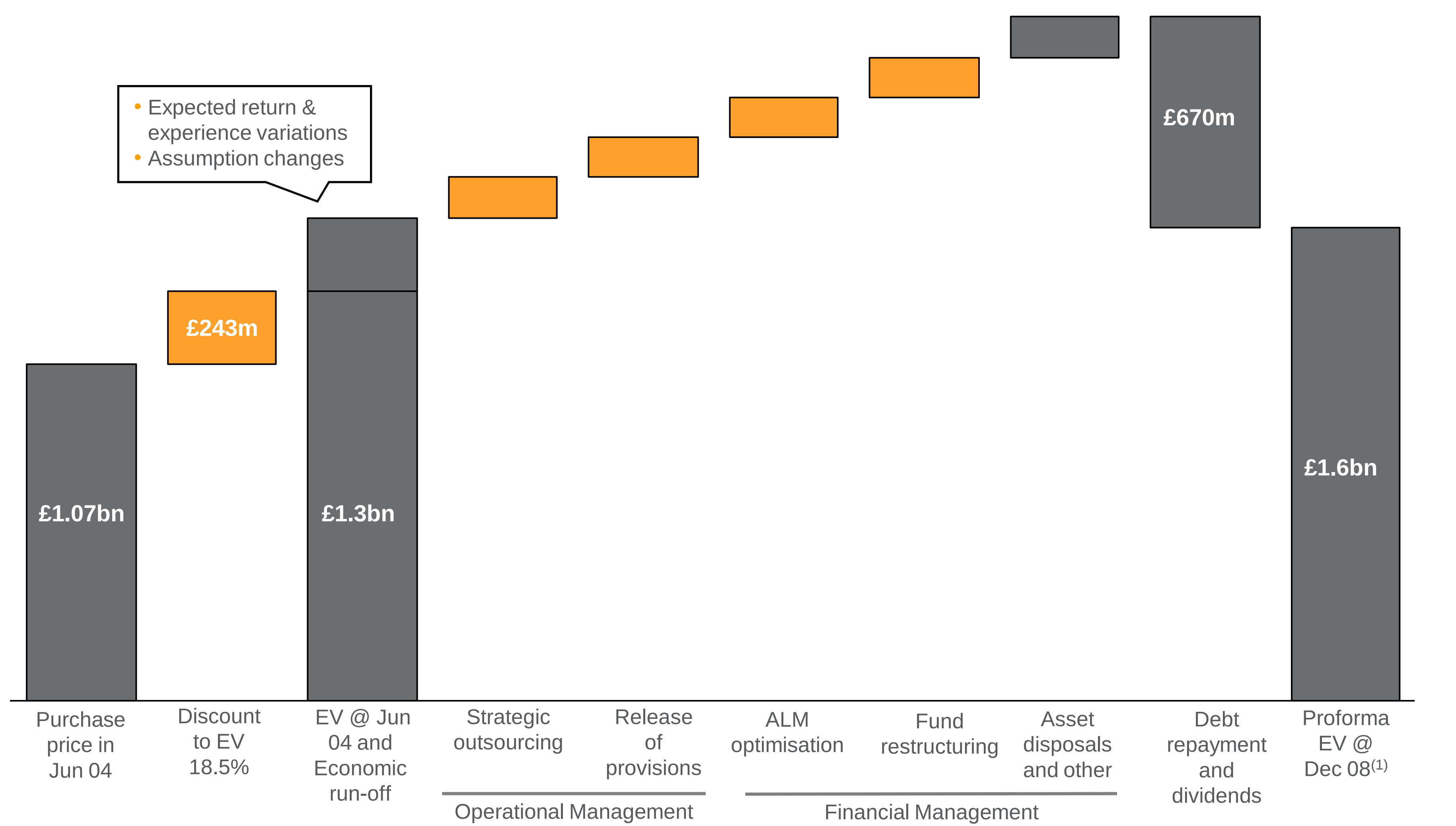
# Pearl: UK's leading consolidator of closed life funds

| | |
|---|---|
| **Large existing operating platform** | • Proforma gross EV at completion of £5.2bn[(1)] (before bank debt and other liabilities)<br>• c.7.6m policies in force<br>• Total AuM of c.£71bn |
| **Strong and resilient long-term cashflows** | • c.£1.1bn of cash distributed from life companies in 2008<br>• Cashflows greater than profits as regulatory capital released with run-off<br>• No risks or up-front costs from cash consumptive and potentially unprofitable new business<br>• Bulk of cashflows derived from revenues that are in the form of secure long term super senior fees, and release of capital |
| **A downside protected business** | • IGD capital requirement 1.3x covered (proforma) with over £1bn surplus<br>• 10% decrease in equity and property markets producing 3% decrease in EV[(2)]<br>• Operational risk mitigated by the outsourcing of policy administration on a cost per policy basis |
| **Expertise and experience in creating value from closed fund acquisitions** | • Few competitors and none with scale advantages and track record of Pearl<br>• Highly experienced team with proven track record in a specialist sector<br>• From its acquisition for £1.1bn in 2004, Pearl upstreamed cash of £670m and still increased its EV from £1.3bn to £1.6bn at end 2008 |
| **Robust basis for valuation** | • No new business; most funds have been closed for at least 5 years<br>• Funds have been subjected to due diligence on multiple occasions by different buyers and have been reviewed by external accounting and actuarial advisers<br>• Nearly half of group EV will be composed of NAV post completion |
| **Underlying value confirmed by Liberty** | • Has investigated many potential investment options<br>• Long and extensive due diligence process<br>• Views Pearl as uniquely attractive opportunity, available at a compelling valuation |

(1) Before estimated restructuring and transaction expenses of £70m (2) Also see slide 17

# Significant value was created from the original Pearl acquisition

Pearl Group Limited: Evolution of EV




(1) Including value of investment in Impala at cost

## 2. Review of Pearl’s Business

# Structure and business overview

**Pearl Group Limited**

- EV of £5.2bn[1]
- c.£71bn AuM
- c.1,500 employees

**Asset Management**

- Two businesses (Ignis and Axial)
- Revenues: £116m
- PBT: £44m[2]
- Ignis: £48bn AuM (of which £6bn[3] are third party assets)
- Axial: £23bn AuM (of which £11bn is managed by Henderson)
- c.500 employees

**Life Companies**

- Two principal Life-Cos:
  - Pearl Assurance
  - Phoenix Life Ltd
- Other Life-cos:
  - London Life
  - PALAL
  - NPI
  - NPL
  - SMI
  - PPL
- c.7.6m policies in force
- Total liabilities of c.£61bn

**Service Companies**

- Two service companies (PGS and PGMS) - managed as a single unit
- PBT: £53m[2]
- Management of relationships with outsourcers
- Provide head office functions (finance, internal audit, tax, HR, regulatory compliance and change management) to the Life-Cos
- c.1,000 employees

**Outsourcing agreements**

- Outsourcing agreements with:
  - Diligenta
  - Capita
  - Unisys
  - HCL IBSL (formerly Liberata)
- Services provided:
  - Policy admin
  - HR admin
  - Facilities mgt
  - Accounts payable
  - IT

Note: Figures relate to the year ended 31 December 2008

(1) Proforma gross EV at completion (before bank debt and other liabilities and estimated restructuring and transaction expenses of £70m)

(2) Excluding exceptional items and goodwill amortisation

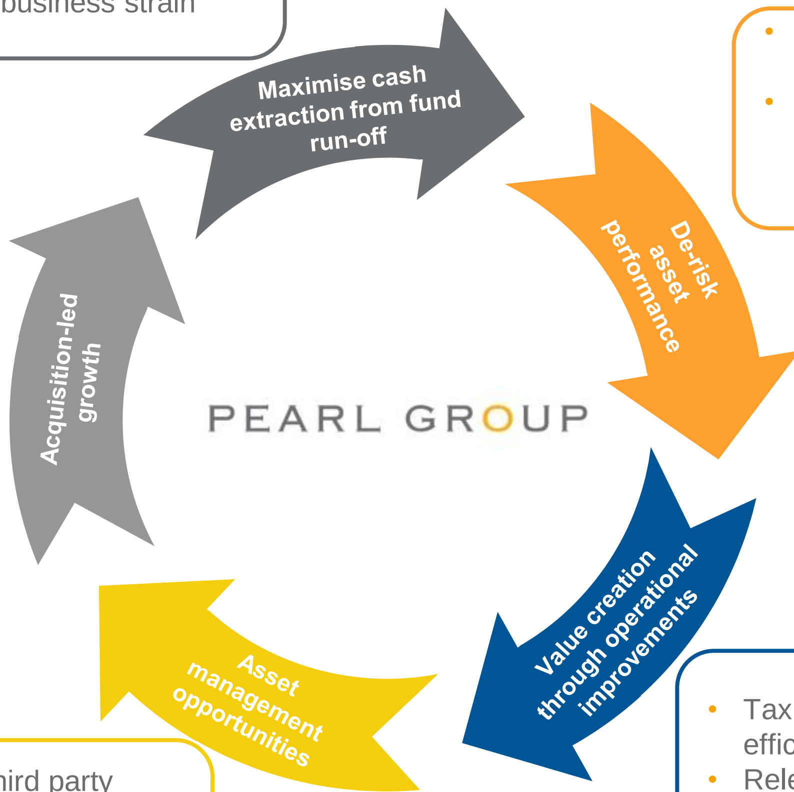
(3) Includes £1.5bn of assets subsequently transferred to Royal London

# Business strategy

- Scale platform
- Use of outsourcing
- Accelerate cash flows
- No new business strain

- Industry-leading asset and liability management team
- Cautious risk management led to unwinding of legacy ABS and CDO positions prior to August 2007

- Favourable market conditions
- Few credible competitors
- Track record in delivering transaction benefits

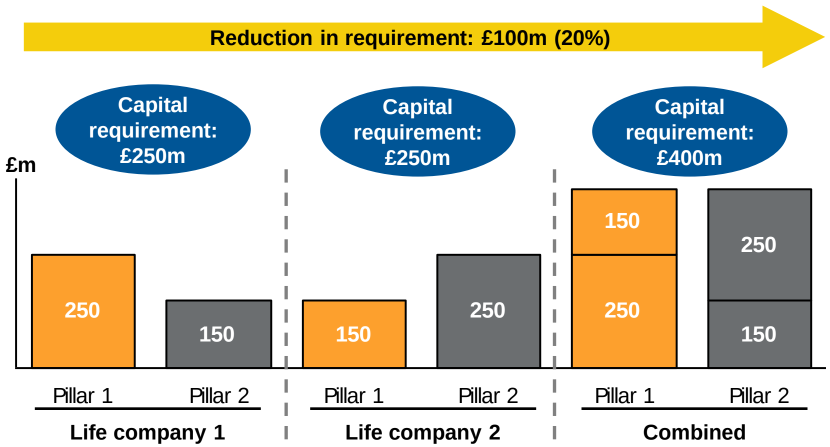



- Tax, capital and cost efficiencies
- Release capital and enable higher risk-adjusted returns

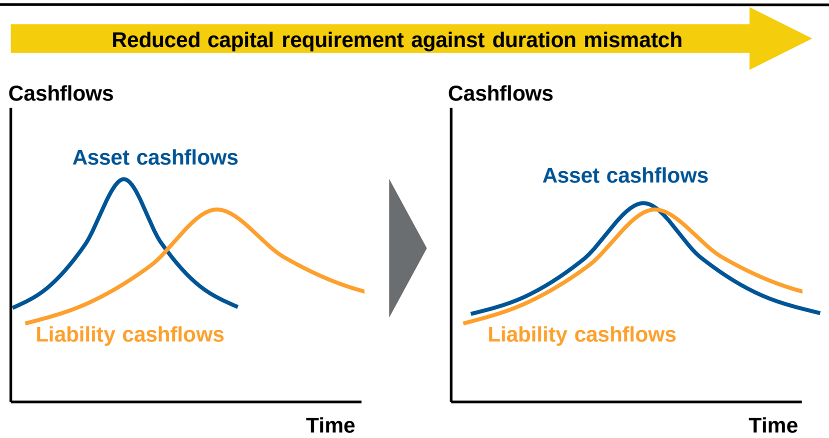
- Internal and third party assets
- Leading ALM capabilities
- Value upside as industry consolidates

# Financial management: Significant further value to be realised from previous transactions

## Hypothetical Capital Requirements in a Fund Merger(1)




## Illustrative Asset and Liability Matching(2)

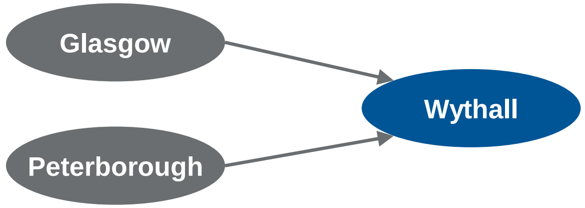



(1) Based on a hypothetical fund merger. All figures are for illustrative purposes only
(2) Charts are for illustrative purposes only

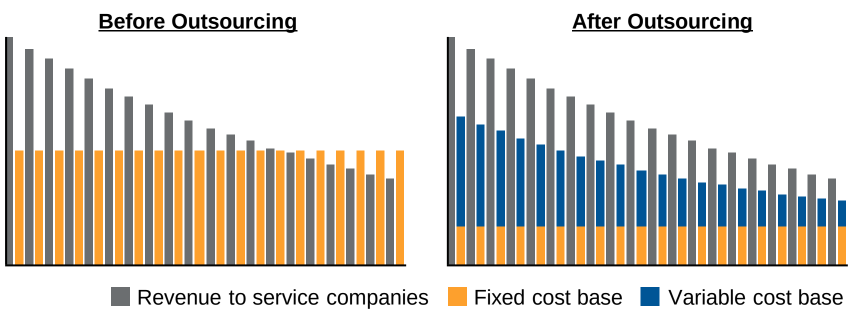
- Eliminate unrewarded risk and release capital to enable higher risk-adjusted returns
  - Fund mergers to drive increased capital efficiency and tax synergies
  - Detailed asset and liability risk management
  - De-risking of investment strategy
  - Reduction of operational risk
  - Distribution of policyholders' estate

# Service companies: Driving operational excellence

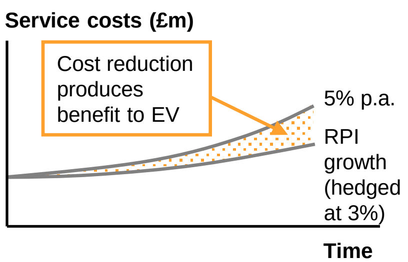
## Site Consolidation




## Illustrative Variability of Cost Base(1)




## Illustrative Reduction in Service Costs(1)




- Before outsourcing, EV assumptions include service costs growing at 5% p.a.
- After outsourcing, service costs set to grow at RPI
- RPI hedged at 3% p.a., locking in saving
- Life fund able to recognise EV benefit of cost saving

(1) Charts and all figures are for illustrative purposes only

- Delivered Resolution merger cost savings of £10m p.a.
- Overall decline of policy book over time addressed by matching the incurred cost to the group's policy run-off profile
- Closure of 2 of 3 operational sites and rationalisation of headcount
  - Expect to reduce headcount by approx. 300 by end 2012
- Harmonisation and standardisation of policies and standards
- Rationalisation of outsource service providers and renegotiation of contracts
  - Majority of cost base now variable, aligning costs with portfolio run-off, with variable proportion expected to increase in the future
  - Talks ongoing with 2 providers to optimise commercial relationships
  - Stable and proven platform to realise value from acquisitions
- Rationalisation of IT systems

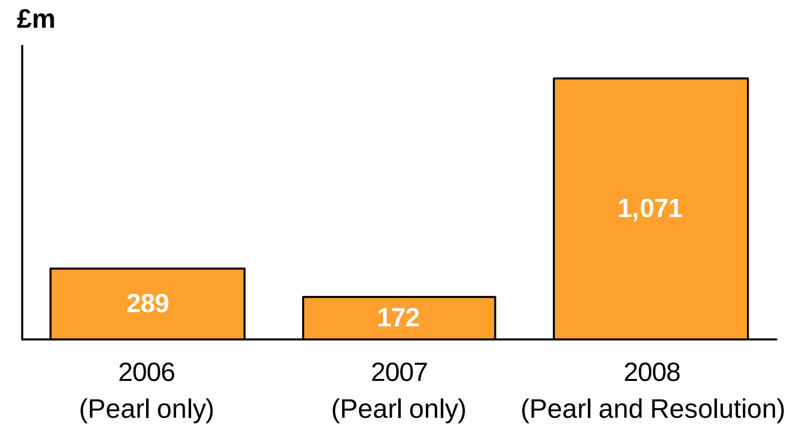
# Select financial metrics

| Proforma net Embedded Value | |
|---|---|
| Pearl Group Limited gross EV at 31 Dec 2008 | 4,749 |
| Original bank facilities | (3,085) |
| PIK note[1] | (332) |
| **Net EV at 31 December 2008** | **1,332** |
| Liberty cash[2] | 514 |
| Restructuring of bank facilities | 325 |
| Restructuring of PIK note | 232 |
| Net assets of other acquired companies | (67) |
| Restructuring and transaction expenses (estimated) | (70) |
| **Proforma net EV** | **2,266** |
| No. issued shares at completion | 132.2 |
| **Proforma net EV per share (£)** | **£17.14** |
| Proforma net EV per share (€)[3] | €20.12 |

| Capital | |
|---|---|
| IGD solvency surplus[4] | £1,048m |
| IGD CRR coverage[4] | 1.3x |

| Dividend policy | |
|---|---|
| Anticipated dividend (2009) | €0.50 (pro-rated) |

**Cashflow from Life Companies[5]**




**Following the transaction Pearl benefits from a substantial and stable EV, a recapitalised balance sheet and strong cash generation capacity**

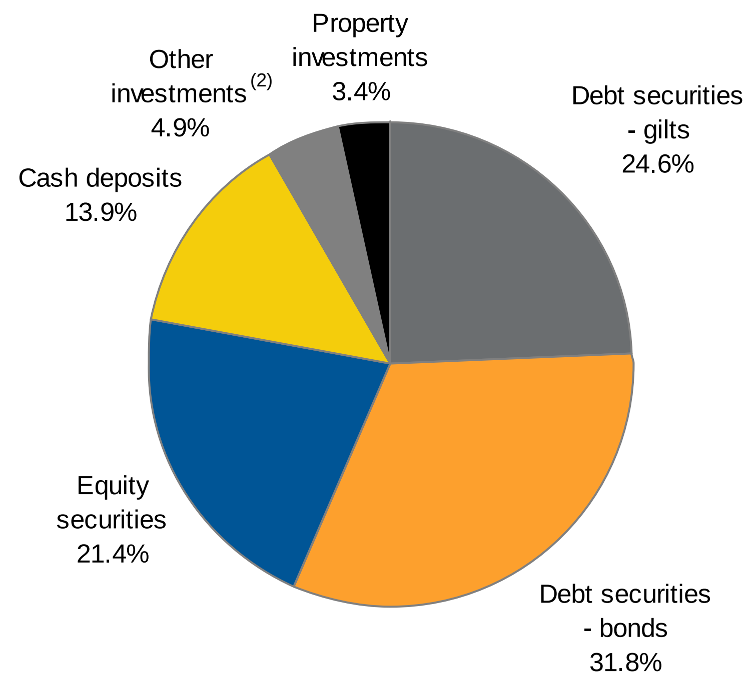
(1) Royal London PIK (including accrued interest of £23m at 31 December 2008)
(2) Based on Liberty cash as of 31 December 2008 of up to €603m
(3) Based on exchange rate of €1.1739/£ (at 30 June 2009)
(4) Proforma for fund merger of PLL, Scottish Provident and Scottish Mutual and anticipated increase in surplus of £375m following capital injection by Liberty
(5) Pearl life companies cash flows including impact of acquisition of Resolution in 2008
Note: EV figures exclude Opal Re (IFRS reported net assets as of 31 December 2008 of £13m)

# Strong and resilient business

## Low Sensitivity of EV

| | Change in EV (£m) | Change in EV (%) |
|---|---|---|
| EV at 31 December 2008 | 4,749 | |
| 100bp increase in risk-free rates | (50) | (1)% |
| 100bp decrease in risk-free rates | 35 | 1% |
| 10% decrease in equity and property market values | (129) | (3)% |
| 100bp increase in credit spreads | (53) | (1)% |
| 25% decrease in lapse rates and paid-up rates | 2 | - |
| 25% increase in lapse rates and paid-up rates | (13) | - |
| 5% decrease in annuitant mortality | (101) | (2)% |

## High Quality Asset Portfolio(1)

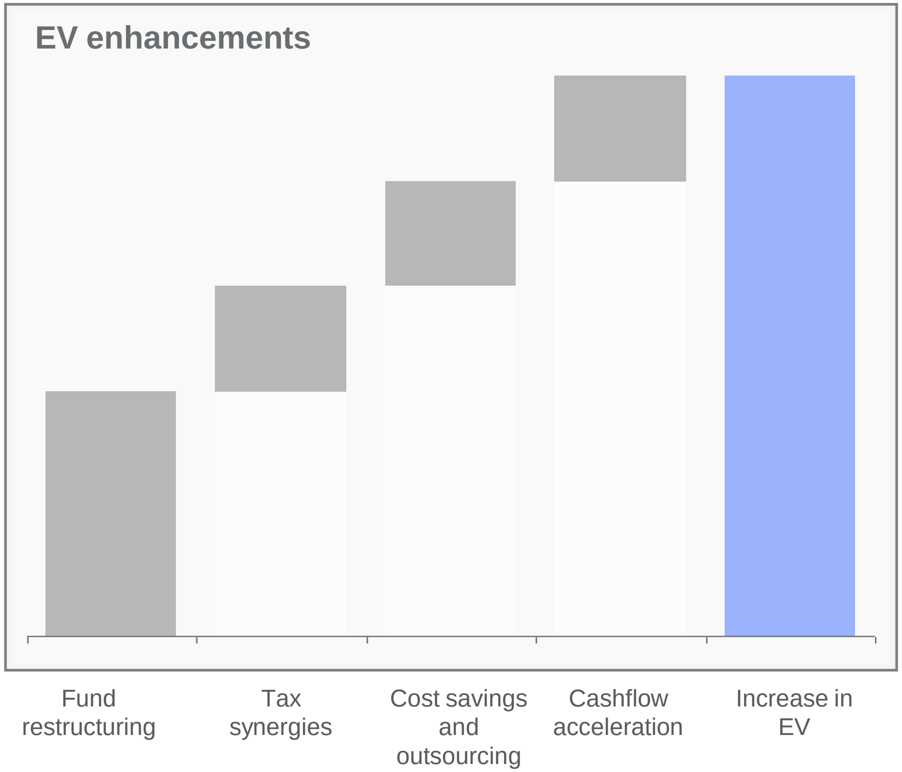


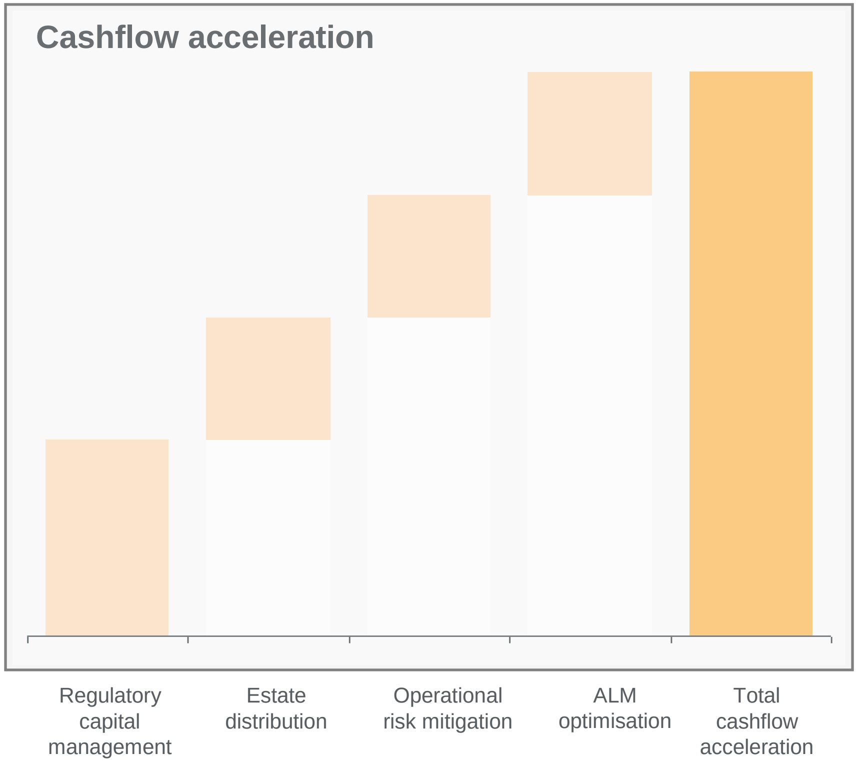

- Limited shareholder exposure to equities which are mainly held in with-profits and unit-linked funds

(1) As at 31 December 2008. Includes shareholder and policyholder (inc. unit-linked) assets. Also see slide 35
(2) Includes hedge funds, derivatives, private equity instruments and other loans
Note: Shareholder assets include shareholder funds and non-participating funds; policyholder participating assets include all assets held in with-profit funds

# EV and cashflow enhancement in existing business

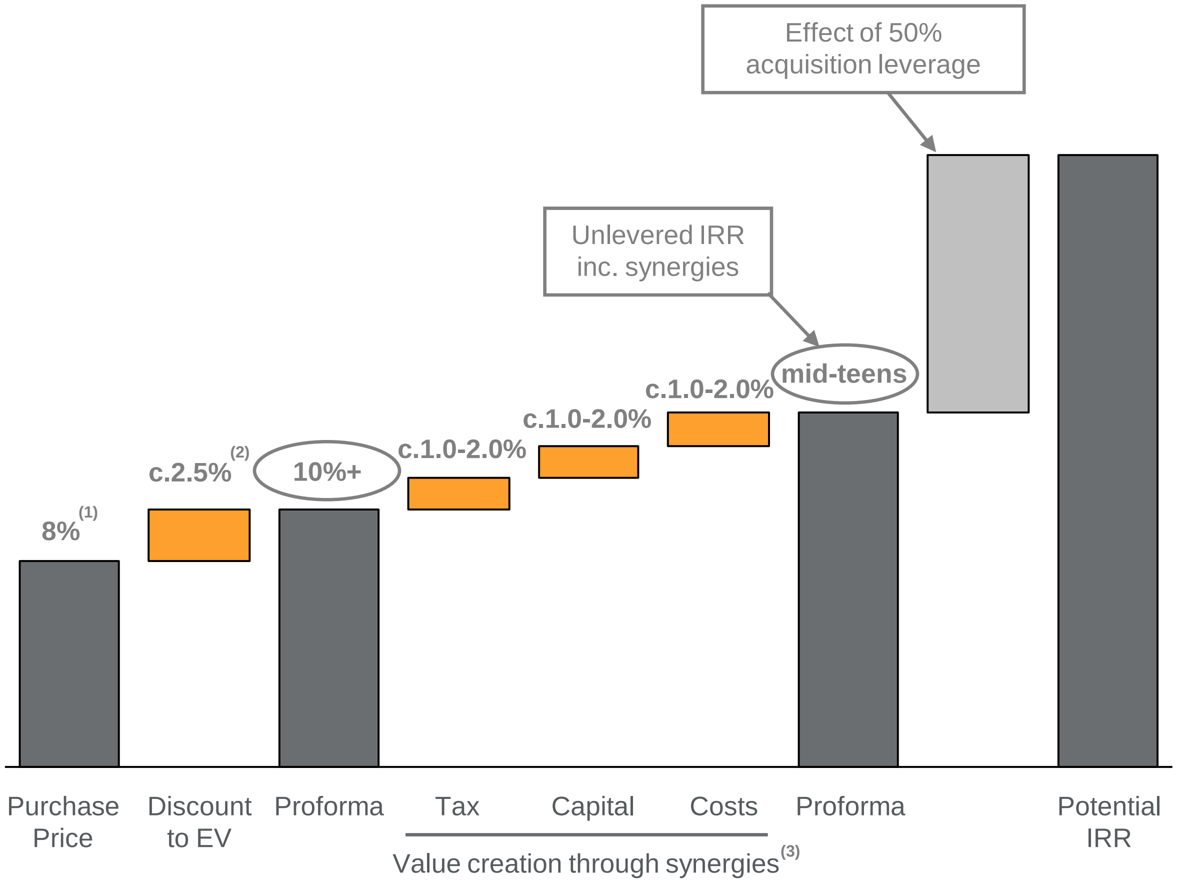
- The injection of substantial new equity funds will allow management to pursue identified value creation initiatives which should increase embedded value and accelerate cashflows
- Many of these initiatives are underway and management believes that a significant number can be completed by the end of 2010
- These initiatives are expected to result in increase in EV of up to £300m and acceleration of cashflow of up to £500m



# Illustrative sources of value creation through acquisition

## IRR build-up on hypothetical acquisition




- Based on hypothetical forecast EV cashflows over 30 years
- In-force IRR benefits from
  - Discount to EV
  - Run-off profile
- Tax shield benefit of leverage further increases IRR beyond gearing effect
- Potential further synergy benefits from a merger of Pearl's existing asset management operations with a third party. Estimated potential value creation of £150-200m

Source: Management estimates for hypothetical transaction based on precedent transactions. All figures are for illustrative purposes only

(1) Assumes 8% discount rate and run-off profile of 15% per annum on acquired EV

(2) Assumes purchase price of 90% of EV

(3) Management estimates

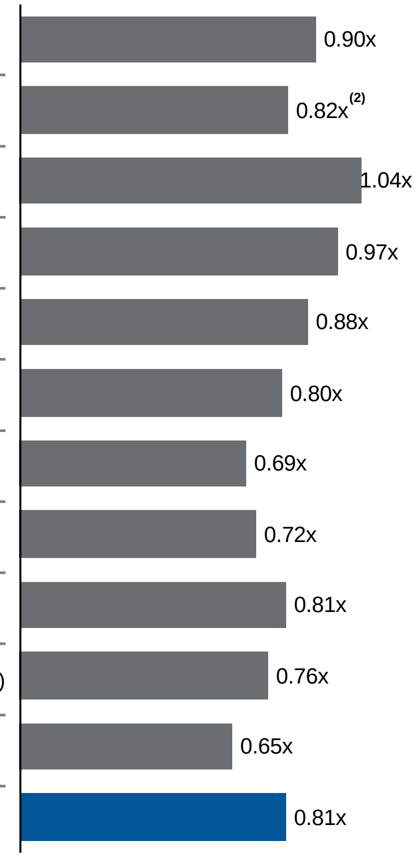
# Future opportunities from consolidation strategy

- Owners of legacy / closed life funds remain open to disposals, in order to free up capital, enhance returns and reduce demands on management
- Consolidation provides significant potential for value creation
  - Sellers may be willing to accept discount to EV in current market conditions
  - Few competing acquirers, and those with continuing interest in sector lack scale and synergies
  - Synergies available to an acquirer with existing scale platform: cost, tax, capital, outsourcing, asset management…
  - Expertise in financial management enables acceleration of cash flows

Pearl's scale platform and listing will provide it with a strong position as the industry consolidator

## P/EV of closed fund deals

| Date[(1)] | Acquirer | Target | P/EV |
|---|---|---|---|
| Aug 2008 | Swiss Re | Barclays Life | 0.90x |
| Oct 2007 | Pearl | Resolution | 0.82x[(2)] |
| Jul 2007 | Deutsche Bank | Abbey Life (LTSB) | 1.04x |
| Jun 2006 | Resolution | Abbey Life | 0.97x |
| Jun 2005 | Britannic | Resolution | 0.88x |
| May 2005 | Chesnara | CoW | 0.80x |
| Mar 2005 | Britannic | Century | 0.69x |
| Dec 2004 | Britannic | Cornhill | 0.72x |
| Dec 2004 | Pearl | HHG | 0.81x |
| Dec 2004 | Resolution | Swiss Life (UK) | 0.76x |
| Jul 2004 | Resolution | RSA (UK Life) | 0.65x |
| Sector trading average[(3)] | | | 0.81x |



(1) Dates refer to deal announcement

(2) Based on consideration of £5.2 billion (the total purchase price based on Resolution's fully diluted share capital of 691,286,660 ordinary shares and an offer price of 720 pence per Resolution share plus £235 million as a result of refinancing Resolution's outstanding debt) less consideration paid by Royal London of £1.27 billion, and post-transaction adjusted embedded value of £4.8 billion attributable to the Resolution assets acquired by Pearl (based on transaction due diligence). The calculation excludes true-ups with Royal London since they were not known when the transaction was announced or when it closed

(3) Sector average includes: Chesnara, Aviva, Prudential, Legal & General, Friends Provident, Old Mutual and Standard Life. Market data as of 30 June 2009. Based on reported group embedded value less reported goodwill

# 3. Summary

# Conclusion

- Opportunity to buy into strong and resilient long-term cashflows at a substantial discount to embedded value
  - Cashflows greater than profits as regulatory capital is released with run-off
  - No costs or risks associated with writing capital-intensive new business
- Clear plans to deliver improvements to existing business that are expected to increase EV and accelerate cashflows
- Highly favourable conditions for further consolidation
- Pearl’s scale platform and public listing will provide it with a strong position as the industry consolidator
- Underlying cash creation, profitability and value of the business remain strong and resilient

# Appendix A – Further Information on Pearl

# Pearl Group: Pure closed fund focus

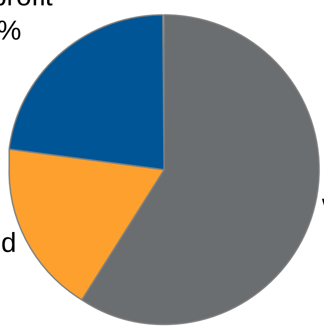
| | |
|---|---|
| **What is a closed life fund?** | • A collection of largely long-dated liabilities comprising maturing life policies which entitle policyholders to defined future payments of a steady and generally predictable nature<br>• To meet long-dated liabilities, life companies hold substantial assets (collected as premiums) invested in a variety of asset classes, subject to rules set out by the EU or UK regulator and the terms and conditions of the policies<br>• Value to shareholders = Embedded Value = difference between assets and discounted liabilities and capital held or net asset value ("NAV") + discounted future cash flows arising from policies ("Value in Force" or "VIF") |
| **Predictable, long term cash flows** | • As a closed life fund runs off, cashflows from the release of surplus regulatory capital, fees and participation in investment returns will emerge in a generally stable and predictable fashion over time |
| **No new business strain** | • Allows for higher and more predictable cash generation and clear visibility on release of regulatory capital<br>• No risks from cash consumptive and potentially unprofitable new business<br>• No up-front costs associated with selling new business |
| **No capital uncertainty** | • No legacy capital issues<br>• Given FSA regulation, considerable capital must be held in addition to that required to meet the liabilities to safeguard policyholders against future falls in asset values or unexpected outcomes in payout profiles<br>• Reacting to current market conditions, regulators have imposed restrictions on life companies to stress test and trap capital even further |
| **Option value** | • Scale platform used to make acquisitions at a discount and to extract value through operating and capital synergies<br>• Benefit from recovery in markets<br>• Potential upside from operational improvements |

# Life companies and asset management

## UK's Leading Closed Life Fund Consolidator

Pearl Assurance, Britannic, Phoenix, Scottish Provident, Scottish Mutual, NPI, London Life

## Mix of Policyholder Liabilities[1]




## Asset Management: Traditional and Specialist Expertise

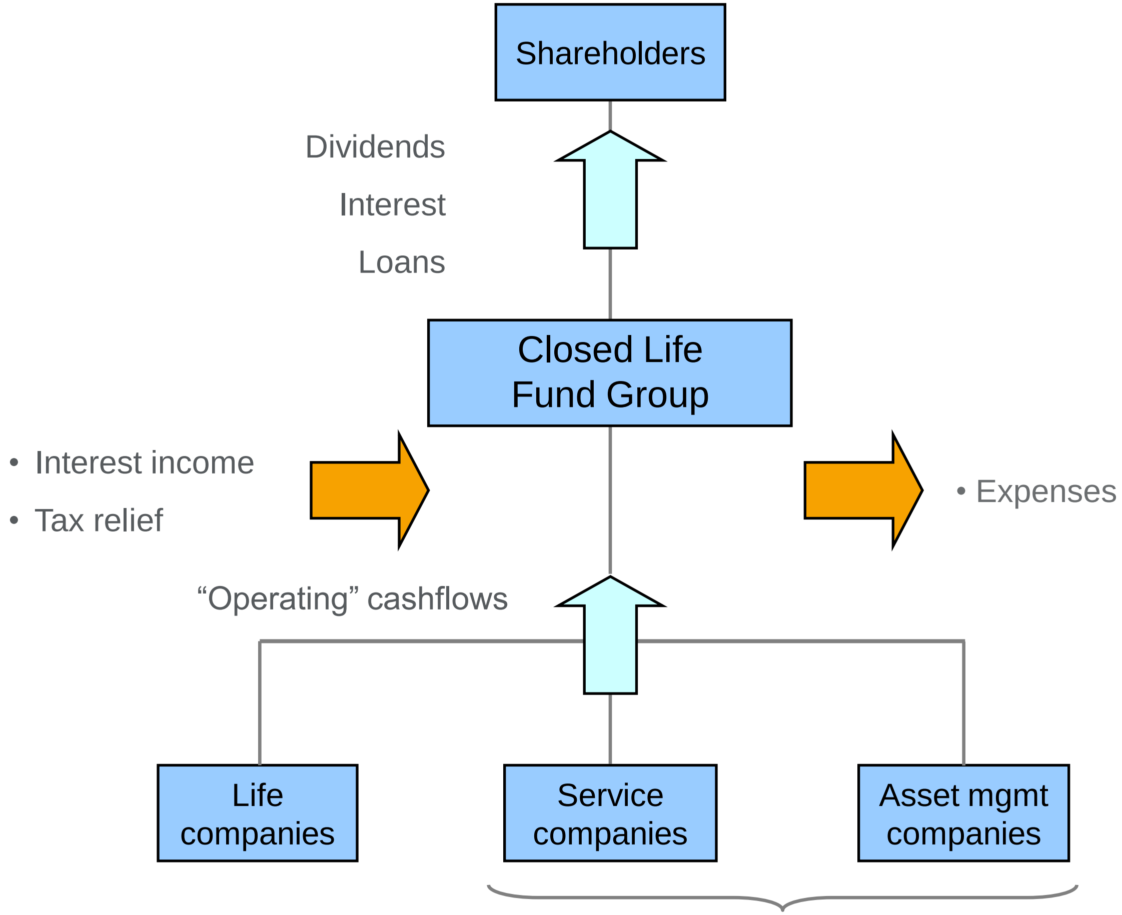
- Large and stable base of captive AuM from life companies
- Opportunities to realise additional value through consolidation

- Ignis: AuM of £48bn
  - Traditional asset manager
  - Manages £42bn of Pearl's own life company assets
  - £6bn of third party assets[2], with an average of £1.3bn of gross new business generated over the last three years
  - Four joint ventures to provide specialist fund management services

- Axial: AuM of £23bn
  - Provides asset and liability management services to Pearl life companies, including asset allocation and risk management advice
  - Significant in-house capabilities based on proprietary systems
  - Specialist fixed income skills
  - Manager of managers capability

(1) As of 1 January 2009
(2) As of 31 December 2008; includes £1.5bn of assets subsequently transferred to Royal London

# Description of cash flows from a closed life fund group



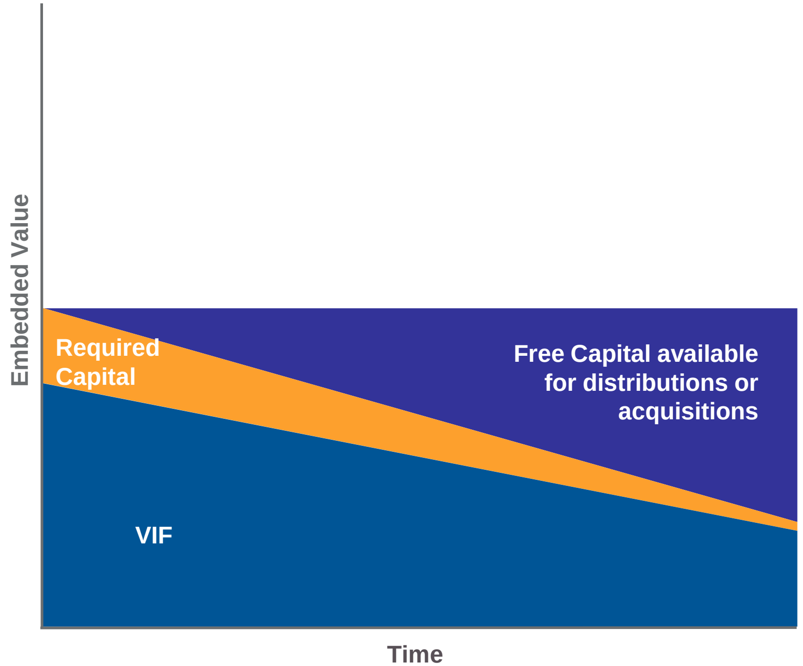

- Release of solvency buffers
- Excess return on shareholder funds
- Release of margins

- Operating profits derived from senior fee streams for asset management and policy administration

# Closed life fund group consolidation model

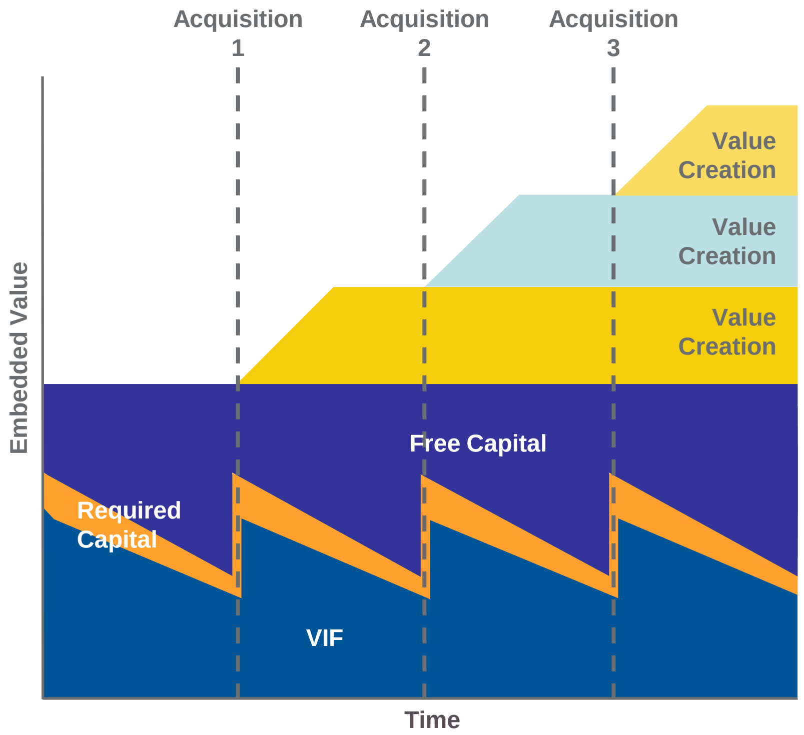
## Closed life fund

- Over time, policies mature and the VIF runs off as cashflows
- In addition, the capital required to support the solvency of the business reduces over time and can be released to shareholders
- This run off process is generally predictable and management typically have opportunities to increase the value of the VIF and/ or accelerate the release of capital




## Consolidation of closed life funds

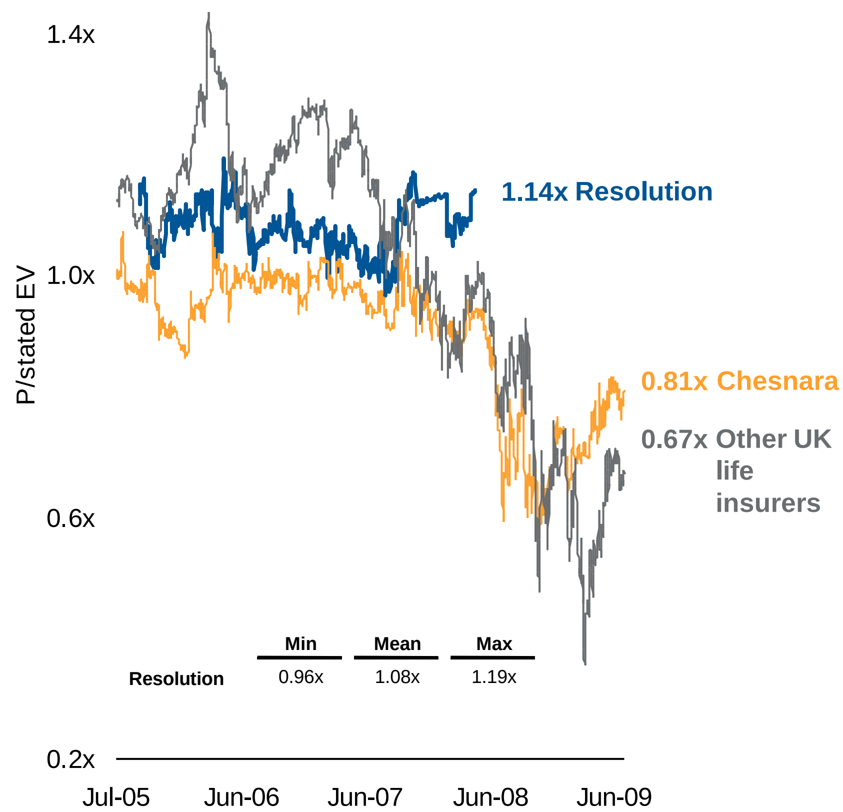
- VIF and hence cashflows to be replenished through future acquisitions
- Value creation in potential acquisitions via discount to EV and tax, capital and cost synergies



# Closed funds have traded on more stable P/EV multiples than "open" life insurers

| | |
|---|---|
| **Low share price sensitivity** | • Stability and low volatility relative to "open" life insurers<br>• Closed fund stocks have displayed lower betas than the "open" life insurance companies |
| **Higher cash flow yields** | • "Open" UK life insurers write new business which requires further capital and high up-front selling costs<br>• Closed funds have no new business function leading to higher cash flow generation |
| **Low capital intensity** | • New business has a much larger capital requirement than a closed fund which will release its capital to shareholders as policies run-off<br>• No "new business strain" |
| **No unprofitable new business** | • No pressure to write potentially unprofitable new business in order to protect market share<br>• In the current market environment, certain classes of new business generate low margins and have long and uncertain cash payback periods |
| **Seasoned portfolio** | • The maturity of Pearl's portfolio provides greater certainty and predictability over future policy lapse rates and cashflows compared to a less seasoned portfolio |

**Embedded value multiples**




| | Min | Mean | Max |
|---|---|---|---|
| **Resolution** | 0.96x | 1.08x | 1.19x |

Source: Company reports (reported group EV) and Factset as at 30 June 2009
"Other UK life insurers" includes: Aviva, Prudential, Standard Life, Legal & General, Friends Provident and Old Mutual (multiples weighted by market cap)

# Governance

| | At completion of transaction | Planned changes |
|---|---|---|
| **PLC Board of Directors** | ▪ Chairman<br>▪ Ian Ashken<br>▪ Ian Cormack<br>▪ David Barnes<br>▪ René-Pierre Azria<br>▪ Hugh Osmond (Vice Chairman)<br>▪ Manjit Dale<br>▪ Jonathan Moss (Group Chief Executive Officer)<br>▪ Simon Smith (Group Finance Director)<br>▪ Other independent non-executive directors | ▪ Size of board will be increased to 15 members<br>▪ Prior to completion, Liberty will conduct a process to appoint a permanent chairman<br>▪ In the event that a permanent chairman is not appointed prior to completion, Jonathan Evans will be appointed as the interim chairman<br>▪ Remaining six independent non-executive directors will be identified and appointed prior to completion or as soon as practicable thereafter |

**Corporate governance**

- Committed to observing best corporate governance practice
- Non-executive directors will comprise a majority of the board (after an initial period during which further non-executive directors will be appointed)
- Non-executive directors will have equal responsibility with other board members for leadership
- Clear division of responsibilities between the chairman and chief executive officer
- At each annual general meeting, at least one-third of the directors (including any who have been in office for three years or more) will retire from office but will be eligible for re-election

**Jonathan Moss (CEO)**

- Managing Director of Pearl Group since 2006 and now CEO. Previously was Finance Director and before that, Chief Actuary of AMP Life. Has also been Appointed Actuary of London Life and National Provident Life

**Simon Smith (CFO)**

- Became Finance Director in 2006 following the acquisition of Pearl by Sun Capital and TDR Capital. Simon is a chartered accountant with 18 years' experience in the fund management and life insurance sectors, specifically in tax management and structuring

**Hugh Osmond (Vice Chairman)**

- Founded Punch Group and, as Executive Chairman between 1997 and 2001, built it into one of the UK's largest pub companies. Co-led the acquisition and listing of PizzaExpress in 1993 and helped build it into the UK's largest sit-down restaurant chain

# Appendix B – Financial Information

# Trading update

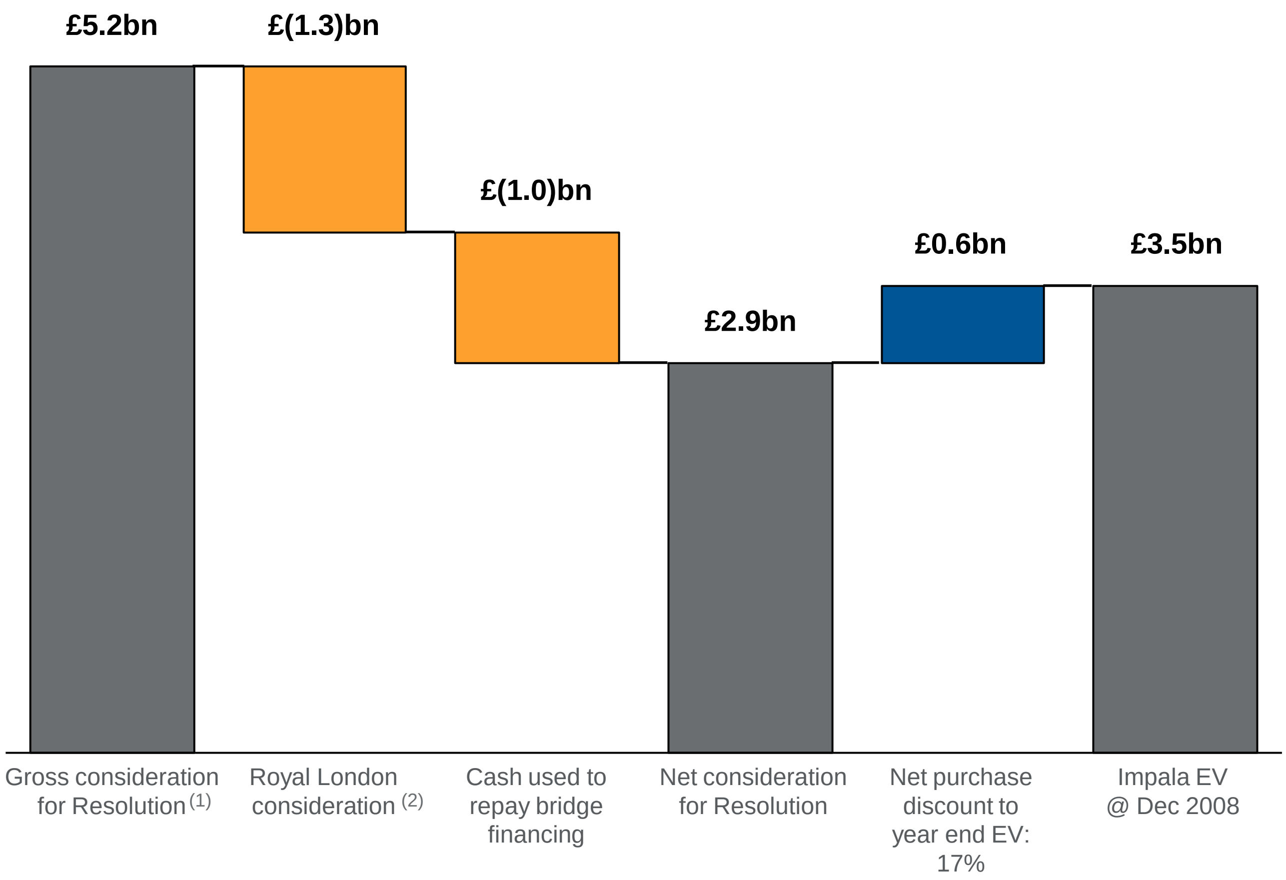
- Since year end 2008, financial markets have remained volatile across a wide range of asset classes
  - From December 31, 2008 to June 30, 2009, the FTSE All Share Index decreased by 1.7% and the spreads for European AA corporate bonds narrowed by 56 basis points
  - The IPD UK All properties index return from December 31, 2008 to May 31, 2009 was (12.4)%
  - Notwithstanding volatility in market movements, fixed income markets are now improved since December 31, 2008
- **EV is not expected to have significantly changed by reference to market factors**
- Significant improvements have been made to the business since December 2008

Source: Factset, IPD and Bloomberg (EMU Corporates, AA Rated index)

# Embedded Value assumptions

- Market-consistent methodology
  - Assets and liabilities valued in line with market prices and consistently with each other
- Under certainty equivalent approach, all gross investment returns assumed to be equal to the risk-free rate
  - As of 31 December 2008, risk-free rate of 3.84%
- There are some divergences between MCEV principles and approach used by Pearl including:
  - In line with some peers, the value-in-force for the Pearl Group life companies includes an allowance for the liquidity premium on corporate bonds backing illiquid annuity business where the Pearl Group expects to hold these bonds to maturity. This treatment applies to some £4.3bn of debt securities. Default assumptions used in the EV on the corporate bond portion of the portfolio equate to an average spread of 100bps over the full life of the bonds
  - The valuation of Ignis's asset management businesses is included within the embedded value at an estimated market value that includes the value of new third-party business in line with sales forecasts
  - As the Pearl Group's life companies' funds have been closed to new business for a number of years, no explicit allowance has been included within the Pearl Group's embedded value for the cost of non-hedgeable, non-financial risk, arising from such risk factors as product mis-selling and regulatory risk
  - The embedded value of the Pearl Group service companies uses operating cost assumptions which assume the closure of Glasgow and Peterborough sites and completion of the consolidation of these operations into Wythall

# The Resolution acquisition




(1) £5.2bn gross consideration for Resolution based on total purchase price based on Resolution's fully diluted share capital of 691,286,660 ordinary shares and an offer price of 720 pence per Resolution share plus £235 million in respect of refinancing Resolution's outstanding debt but excluding transaction fees

(2) For Resolution assets acquired by Royal London

# Life fund solvency and IGD capital

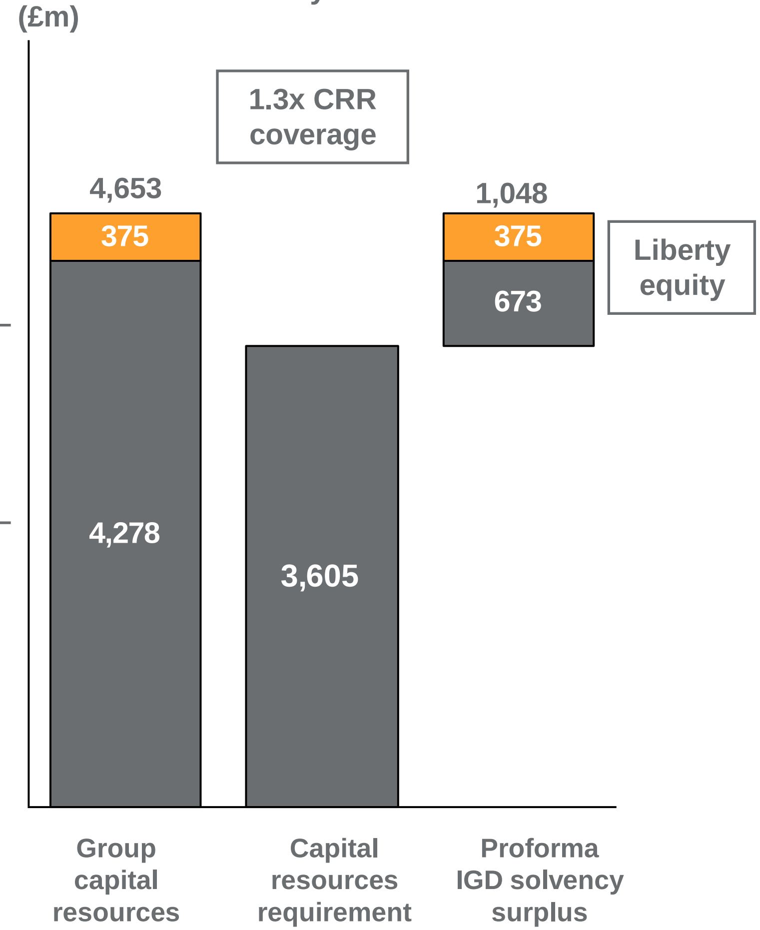
## Life Fund Solvency (31 Dec 08)(1)

| (£m) | London Life Ltd | NPI Ltd | Pearl Assurance Plc | Phoenix & London Assurance Ltd | Phoenix Life Ltd | Scottish Mutual Assurance | Scottish Provident Ltd |
|---|---|---|---|---|---|---|---|
| Capital resources available | 225 | 156 | 1,334 | 663 | 2,272 | 765 | 955 |
| Capital resources requirement | 72 | 52 | 919 | 297 | 1,845 | 443 | 801 |
| Excess of available capital resources | 153 | 104 | 415 | 366 | 426 | 323 | 155 |

- Note that since 31 December 2008 Phoenix Life Ltd, Scottish Provident Ltd and Scottish Mutual Assurance Ltd have been merged

## IGD Solvency Surplus (31 Dec 08)(2)

Proforma for equity injection following Liberty transaction




(1) Source: The life companies' FSA returns (Form 2, lines 13, 41 and 42)
(2) Proforma for merger of Phoenix Life Ltd, Scottish Provident Ltd and Scottish Mutual Assurance Ltd

# Asset mix of life companies

| | Shareholder funds[2] | | Policyholder funds[1] Participating[3] | Policyholder funds[1] Unit-linked | Total |
|---|---|---|---|---|---|
| Debt securities-gilts | £2,860m | 24% | £12,106m | £1,095m | £16,061m |
| Debt securities-bonds | £4,301m | 36% | £15,713m | £714m | £20,728m |
| Equity securities | £252m | 2% | £6,738m | £6,993m | £13,983m |
| Property investments | £74m | 1% | £1,922m | £201m | £2,197m |
| Other loans | £24m | - | £25m | - | £49m |
| Cash deposits | £2,588m | 21% | £5,228m | £1,241m | £9,057m |
| Other investments[4] | £1,985m | 16% | £1,192m | £14m | £3,191m |
| **Total** | **£12,084m** | **100%** | **£42,924m** | **£10,258m** | **£65,266m** |

Source: The life companies' FSA returns and statutory accounts

(1) Includes assets where policyholders bear most of the investment risk

(2) Includes assets where shareholders of the life companies bear the investment risk

(3) Includes all assets held in with-profits funds

(4) Includes hedge funds, derivatives and private equity investments

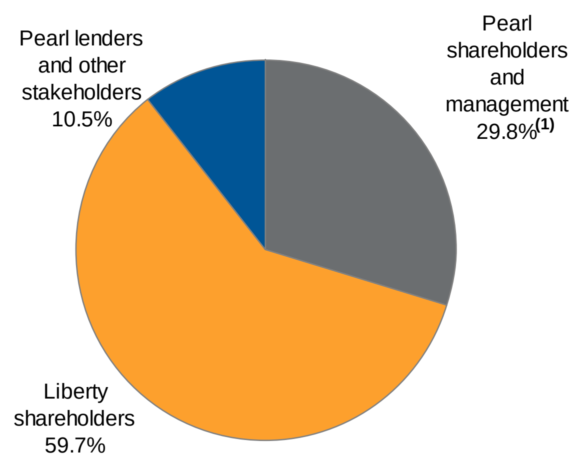
# Appendix C – The Liberty transaction

# Transaction structure and ownership

| | EV & No. of Shares |
|---|---|
| **Outstanding shares & warrants (m)** | |
| Shares issued to Pearl's lenders | 7.7 |
| Shares issued to Royal London | 6.2 |
| Shares issued to Pearl shareholders and management | 39.4 (1) |
| Public and founders' Liberty shares | 78.9 |
| **Total shares** | **132.2** |
| **Proforma net embedded value (£m)** | |
| Pearl Group EV | 4,749 |
| Liberty cash | 514 |
| Net assets of other acquired companies | (67) |
| Restructuring and transaction expenses (estimated) | (70) |
| Proforma EV | 5,126 |
| Debt | (2,860) |
| **Proforma net EV** | **2,266** |
| **Net EV per share (£)** | **£17.14** |
| Exchange rate (€/£) | 1.1739 |
| **Net EV per share (€)** | **€20.12** |

- Liberty issues 53.3m new shares to Pearl's existing shareholders (incl. management), lenders and Royal London
- Existing Liberty shareholders retain c.60% of the combined group (pre-dilution)
- **Net EV per share of £17.14 (pre-dilution)**

**Proforma equity ownership (before dilution)**




Note: EV figures exclude Opal Re (IFRS reported net assets as of 31 December 2008 of £13m)
Note: Calculations based on exchange rate of €1.1739/£ (at 30 June 2009)
(1) Including 0.5m shares issued at closing to certain key management of Pearl Group under the Bonus Share Plan

# Amended and restated credit facilities

| | Currently Outstanding | | | Amended and restated | | | |
|---|---|---|---|---|---|---|---|
| | £m | Margin | Maturity | £m | Margin(1) | Maturity | Repayment |
| Existing Bank Debt | 825 | L+125bps | 2013 | 425(2) | L+125bps cash | 2016 | £25m p.a. 2011-2015<br>Balance in 2016 |
| Lender Loan Notes | - | - | - | 75 | L+100bps cash or PIK | 2024 | Non-amortising |
| **Total Pearl Bank Debt** | **825** | | | **500** | | | |
| Facility A | 1,275 | L+250bps | 2012 | 1,275 | L+100bps cash<br>+ 100bps cash or PIK(3) | 2014 | £125m p.a. from 2011<br>Balance in 2014 |
| Facility B | 493 | L+325bps | 2013 | 493 | L+125bps cash<br>+ 75bps cash or PIK(4) | 2015 | Non-amortising |
| Facility C | 493 | L+375bps | 2014 | 493 | L+175bps cash<br>+ 25bps cash or PIK(5) | 2016 | Non-amortising |
| **Total Impala Bank Debt** | **2,260** | | | **2,260** | | | |

Note: "L" represents LIBOR, "bps" represents basis points, "PIK" represents payment in kind whereby the borrower has the option to add, prior to the third anniversary of the closing date for the Impala Bank Debt facilities and for the full maturity of the Lender Loan Notes, any unpaid interest amount to the principal amount outstanding of the relevant tranche

(1) In addition to interest rate margin figures shown, there will be an addition designed to compensate the lenders for the costs of compliance with the requirements of the Bank of England, the FSA and/or the European Central Bank

(2) Senior in right of payment to the Lender Loan Notes

(3) From and after the fourth anniversary of the closing date of the acquisition, Facility A will bear interest of L+250bps

(4) From and after the fourth anniversary of the closing date of the acquisition, Facility B will bear interest of L+325bps

(5) From and after the fourth anniversary of the closing date of the acquisition, Facility C will bear interest of L+375bps

# Summary schedule of dilutive instruments

| | |
|---|---|
| **Liberty warrants (41.5m shares)** | • 41.5m warrants convertible into 41.5m shares; exercise price of €11.0 per share<br>• At exercise, additional €456m will be added to net total EV<br>• Liberty has option to redeem warrants if share price is at or above €16.5 for any 20 trading days within a 30 day trading period |
| **Earn-out (35.0m shares)** | • 35.0m shares issuable to existing Pearl shareholders (up to 26.5m shares) and lenders (up to 8.5m shares) in three equal tranches<br>• At issuance, there will be no additional proceeds added to the net total EV<br>• Issuable for each of three tranches on the share price attaining, and remaining above, €13.0, €14.0 and €15.0 respectively for 20 consecutive trading days |
| **Royal London warrants (12.36m shares)** | • 12.36m warrants exchangeable for 12.36m shares; exercise price of €11.0 per warrant<br>• At exercise, additional €136m will be added to net total EV<br>• Warrant holders can also pay the warrant price by exchanging outstanding debt (principal and/or accrued but unpaid interest)<br>• Liberty has option to redeem warrants if share price is at or above €16.5 for any 20 trading days within a 30 day trading period |
| **Lender warrants (5.0m shares)** | • 5.0m warrants exchangeable for 5.0m shares; exercise price of £15.0 per warrant<br>• At exercise, additional £75m will be added to net total EV<br>• Warrant holders can also pay the warrant price by exchanging outstanding debt (principal and/or accrued but unpaid interest)<br>• Liberty has option to redeem warrants if share price is at or above £19.5 for 20 consecutive trading days |
| **Shares under incentive plan (3.0m shares)** | • 3.0m shares issuable to directors and employees under variable compensation incentive plans<br>• At issuance, there will be no impact on the net total EV |
| **Liberty sponsors acting as underwriters (1.0m shares)** | • 1m shares issuable to Liberty Sponsors (or their designees) for their commitment to purchase up to the equivalent of £75m of shares from Liberty shareholders who redeem<br>• At issuance, there will be no additional proceeds added to the net total EV<br>• Issuable at such time as the third tranche of shares become issuable under the earn-out |

# Effect of dilutive instruments

- There is no dilution from Earn-out Shares or Lender Warrants until share price is 30%, 40%, 50% and 76.1% higher than it is today (€10). Shareholders will get a substantial return before any dilution

- Liberty and Royal London warrant dilution may occur when share price is €11 or above – post this dilution proforma EV/share is €19.07(1) and exercise brings in €592m of capital that could be used to pay down debt, increase the dividend, provide added PLC buffer, etc

- Even with all instruments exercised and only including existing identified EV accretion, the EV per share would be €16.05(1)

| | Strike price / trigger price | Increase in EV / conversion proceeds (€m) | Proforma EV (€m) | No. new shares issued (m) | Cumulative no. shares outstanding (m) | Proforma EV per share (€) |
|---|---|---|---|---|---|---|
| **At completion** | | | **2,660** | | **132.2** | **€ 20.12** |
| EV impact of mgmt. initiatives | n.a. | 352 | 3,012 | n.a. | 132.2 | € 22.78 |
| Shares under incentive plan | n.a. | - | 3,012 | 3.0 | 135.2 | € 22.28 |
| Liberty warrants | € 11.00 | 456 | 3,468 | 41.5 | 176.7 | € 19.63 |
| Royal London warrants | € 11.00 | 136 | 3,604 | 12.4 | 189.0 | € 19.07 |
| Earn-out shares | € 13.00 | - | 3,604 | 11.7 | 200.7 | € 17.96 |
| Earn-out shares | € 14.00 | - | 3,604 | 11.7 | 212.4 | € 16.97 |
| Earn-out shares | € 15.00 | - | 3,604 | 11.7 | 224.0 | € 16.09 |
| Liberty Sponsors acting as underwriters | € 15.00 | - | 3,604 | 1.0 | 225.0 | € 16.02 |
| Lender warrants | € 17.61 | 88 | 3,692 | 5.0 | 230.0 | € 16.05 |

Note: calculations based on exchange rate of €1.1739/£ (at 30 June 09)
(1) Including expected £300m benefit to EV from planned management initiatives