

# PGH (LC2) LIMITED

Company Registration Number: 06308409

## DIRECTORS' REPORT AND FINANCIAL STATEMENTS for the year ended 31 December 2015



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**PGH (LC2) LIMITED**

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## Strategic report

The Directors present their Strategic report of PGH (LC2) Limited ('the Company') for the year ended 31 December 2015.

### *Principal activities*

The principal activity of the Company during the period was that of an investment company. On 27 May 2015, the Company sold all its assets and novated all its liabilities to a fellow subsidiary, PGH (LCB) Limited for a consideration of £273.9m. Following the reduction in the share capital of the Company and the distributions made by the Company to its parent, the Company ceased trading from 3 June 2015 and will remain dormant 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 6. The profit before tax was £5.5m (2014: £18.6m).

During the year the Company declared and paid dividends of £273.9m (2014: £nil).

### *Position as at 31 December 2015*

The net assets of the Company at 31 December 2015 were £nil (2014: £268.9m). The decrease in the period reflects the profit after taxation arising in the period of £5.0m (2014: £12.6m), offset by dividends paid of £273.9m (2014: £nil).

### *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 by the Company;
- liquidity risk, exposure to 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 and is significantly reduced as assets are primarily inter-company receivables from other group entities.

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 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  
20 June 2016

## **Directors' report**

The Directors present their report and the financial statements of the Company for the year ended 31 December 2015.

The Company is incorporated in the United Kingdom as a private limited company. Its registration number is 06308409 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***

Having reviewed the position in light of the Financial Reporting Council Guidance issued in October 2009, 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 and their interests**

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 Shah

### ***Disclosure of indemnity***

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

### **Secretary**

G A Watson acted as Secretary throughout the year.

### ***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  
20 June 2016

**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 PGH (LC2) Limited**

We have audited the financial statements of PGH (LC2) Limited for the year ended 31 December 2015 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 21. 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.

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.

**Respective responsibilities of directors and auditor**

As explained more fully in the Statement of Directors' responsibilities 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. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Strategic report and the Directors' report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRS as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

**Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

**Matters on which we are required to report by exception**

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

- adequate accounting records have not been kept, 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.

*Ernst & Young LLP*

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

21 June 2016

**PGH (LC2) LIMITED**

**Statement of comprehensive income**  
for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
<b>Revenue</b>			
Net investment income	3	24.3	73.4
<b>Total income</b>		<u>24.3</u>	<u>73.4</u>
Administrative expenses		-	(0.1)
<b>Total administrative expenses</b>		<u>-</u>	<u>(0.1)</u>
<b>Profit before finance costs and tax</b>		<u>24.3</u>	<u>73.3</u>
Finance costs	7	(18.8)	(54.7)
<b>Profit for the year before tax</b>		<u>5.5</u>	<u>18.6</u>
Tax charge	8	(0.5)	(6.0)
<b>Total comprehensive income for the year attributable to owners</b>		<u><u>5.0</u></u>	<u><u>12.6</u></u>

# PGH (LC2) LIMITED

## Statement of financial position as at 31 December 2015

		As at 31 December 2015 £m	As at 31 December 2014 £m
	Notes		
<b>Equity attributable to owners</b>			
Share capital	10	-	90.4
Capital contributions	11	-	127.8
Retained earnings		-	50.7
<b>Total equity</b>		<u>-</u>	<u>268.9</u>
<b>Non-current liabilities</b>			
Long-term borrowings	12	-	1,075.2
<b>Total non-current liabilities</b>		<u>-</u>	<u>1,075.2</u>
<b>Current liabilities</b>			
Short-term borrowings	12	-	118.3
Current tax	13	-	2.0
Accruals and deferred income	14	-	7.5
Amounts owed to Group entities		-	4.1
<b>Total current liabilities</b>		<u>-</u>	<u>131.9</u>
<b>Total liabilities</b>		<u>-</u>	<u>1,207.1</u>
<b>Total equity and liabilities</b>		<u>-</u>	<u>1,476.0</u>
<b>Non-current assets</b>			
Investments	15	-	871.6
Subordinated loans – designated as equity	16	-	331.3
Subordinated loans – designated as loans and receivables	16	-	167.5
Loans to Group entities	17	-	100.6
<b>Total non-current assets</b>		<u>-</u>	<u>1,471.0</u>
<b>Current assets</b>			
Prepayments and accrued income		-	0.4
Amounts owed by Group entities		-	4.6
<b>Total current assets</b>		<u>-</u>	<u>5.0</u>
<b>Total assets</b>		<u>-</u>	<u>1,476.0</u>

On behalf of the Board



J McConville  
Director  
20 June 2016



**PGH (LC2) LIMITED**

**Statement of cash flows**  
for the year ended 31 December 2015

	Notes	2015 £m	2014 £m
<b>Cash flows from operating activities</b>			
Cash generated by operations	18	15.8	41.6
<b>Net cash flows from operating activities</b>		<u>15.8</u>	<u>41.6</u>
<b>Cash flows from investing activities</b>			
Loans advanced to Group entities	17	-	(100.6)
<b>Net cash flows from investing activities</b>		<u>-</u>	<u>(100.6)</u>
<b>Cash flows from financing activities</b>			
Proceeds of borrowings from Group entities	12	-	799.8
Repayment of borrowings	12	(15.8)	(734.1)
Payment of debt issue costs	12	-	(6.7)
<b>Net cash flows from financing activities</b>		<u>(15.8)</u>	<u>59.0</u>
<b>Net increase in cash and cash equivalents</b>		<u>-</u>	<u>-</u>
Cash and cash equivalents at the beginning of the year		<u>-</u>	<u>-</u>
<b>Cash and cash equivalents at the end of the year</b>		<u>-</u>	<u>-</u>
<b>Supplementary disclosures on cash flows from operating activities</b>			
Interest received		33.7	73.0
Interest paid		<u>13.7</u>	<u>48.4</u>

## PGH (LC2) LIMITED

### Statement of changes in equity for the year ended 31 December 2015

	Share capital (note 10) £m	Capital contribution (note 11) £m	Retained earnings £m	Total £m
<b>At 1 January 2015</b>	90.4	127.8	50.7	268.9
Total comprehensive income for the year	-	-	5.0	5.0
Reduction in share capital	(90.4)	-	90.4	-
Dividends paid – see note 9	-	(127.8)	(146.1)	(273.9)
<b>At 31 December 2015</b>	-	-	-	-
	Share capital (note 10) £m	Capital contribution (note 11) £m	Retained earnings £m	Total £m
<b>At 1 January 2014</b>	90.4	127.8	38.1	256.3
Total comprehensive income for the year	-	-	12.6	12.6
<b>At 31 December 2014</b>	90.4	127.8	50.7	268.9

## 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 exemption 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 and resident in Jersey.

#### 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 area of the Company's business that typically requires such estimates is the impairment tests for investments in and loans to Group entities.

#### 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 (g). 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 and loans to Group entities

Investments in and loans to Group entities are subject to regular impairment reviews when management are aware of objective evidence of impairment. Impairments of investments in Group entities are measured at the difference between the carrying value of a particular asset and its estimated value in use. Impairments of investments in loans to Group entities are measured at the difference between the carrying value 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 and loans to Group entities are detailed in accounting policies (e) and (f) respectively.

#### (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.

**1. Accounting policies (continued)**

**(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.

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**

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

The Company assesses at each reporting date whether an investment 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. If objective evidence of impairment exists the Company calculates the amount of impairment as the difference between the recoverable amount of the subsidiary and its carrying value and recognises the amount as an expense in the statement of comprehensive income.

**(f) Loans and receivables**

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. Gains and losses are recognised in the statement of comprehensive income through the amortisation process.

The Company assesses at each reporting date whether a loan or receivable 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. If objective evidence of impairment exists the Company calculates the amount of impairment as the difference the carrying value of the loan and receivable with 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.

**(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) 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.

**1. Accounting policies (continued)**

**(i) Income recognition**

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

Interest income is recognised in the statement of comprehensive income as it accrues using the effective interest method. Dividend income is recognised in the statement of comprehensive income on the date the right to receive payments is established, which in the case of listed securities is the ex-dividend date.

Fair value gains and losses on financial assets at fair value through profit or loss are recognised in the statement of comprehensive income. Realised gains and losses are the difference between the net sale proceeds and the original cost. Unrealised gains and losses are the difference between the valuation at the period end and their valuation at the previous period end or purchase price, if acquired during the year.

**(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) 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 agreement for their repayment are recognised directly in the statement of changes in equity as a distributable reserve.

**(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.

**2. Financial information**

The financial statements for the year ended 31 December 2015, set out on pages 6 to 20 were authorised by the Board of Directors for issue on 20 June 2016

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.

- Annual Improvements 2010 – 2012 cycle; and
- Annual Improvements 2011 – 2013 cycle.

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). This standard will replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 was originally issued in November 2009 and introduced new requirements for the classification and measurement of financial assets. The standard was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition and in November 2013 to include new requirements for general hedge accounting. Another revised version was issued in July 2014 to include a) an expected credit loss impairment model (to replace the incurred loss model of IAS 39) and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' option for certain simple debt instruments. 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 contractual cash flow characteristics and the business model of the financial assets. The Company currently expects that the application of IFRS 9 in the future is unlikely to have a material impact on the measurement and presentation of amounts reported in respect of the Company's financial assets and liabilities. The Company expects to continue to value the majority of its financial assets at fair value through profit or loss on initial recognition, so as to eliminate or reduce any potential accounting mismatch. The expected impact remains subject to completion of a detailed review.

## 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 Company anticipates that the application of IFRS 15 in the future is likely to have limited impact on the measurement and presentation of amounts reported in respect of the Company's financial statements.
- Annual Improvements to IFRS 2012-2014 cycle (2016).
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38) (2016).
- Disclosure initiative (Amendments to IAS 1)(2016).
- Disclosure initiative (Amendments to IAS 7)(2017).
- Recognition of Deferred tax assets for unrealised losses (Amendments to IAS 12)(2017).
- IFRS 16 Leases (2019). IFRS 16 will replace IAS 17 Leases. The new standard removes the classification of leases as either operating or finance leases for the lessee, thereby treating all leases as finance leases. This will result in the recognition of a right-to use asset and a lease liability for all of the Company's previously classified operating leases. The recognition of depreciation and an interest cost will result in a decreasing cost over the term of the lease compared to a straight line allocation of the lease rentals. Short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements. The Company anticipates that the application of IFRS 16 in the future is likely to have limited impact on amounts reported in respect of the Company's financial statements.

## 3. Net investment income

	2015 £m	2014 £m
Interest income on loans and receivables	35.1	73.4
Fair value loss		
Loss on novation of borrowings – see note 12	(10.8)	-
Net investment income	<u>35.1</u>	<u>73.4</u>

Interest income on loans and receivables includes interest of £35.1m (2014: £73.4m) on loans to Group entities.

Under a sale and purchase agreement dated 27 May 2015, the Company transferred its rights and obligations under a loan agreement with PGH Capital Limited to PGH (LCB) Limited. At the date of transfer the loan carrying value was £147.8m whereas the fair value of the loan was determined to be £158.6m. The resulting £10.8m loss was recognised through the statement of comprehensive income.

## 4. Employee information

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

## 5. Directors' remuneration

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

	2015 £	2014 £
Salaries and other short-term benefits	<u>28,881</u>	<u>45,236</u>
Remuneration (excluding pension contributions and awards under share option schemes and other long-term incentive schemes)	<u>28,881</u>	<u>45,236</u>
Share-based payments	<u>19,818</u>	<u>48,983</u>
Contributions to money purchase pension scheme	<u>1,433</u>	<u>3,747</u>
Number of Directors who are members of a money purchase pension scheme	<u>1</u>	<u>1</u>
Number of Directors who exercised share options during the year	<u>2</u>	<u>2</u>

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### 5. Directors' remuneration (continued)

The Directors are employed by either Pearl Group Services Limited or Pearl Group Management Services Limited.

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.

### 6. Auditors' remuneration

The remuneration of the auditors of the Company, including their associates, in respect of the audit of the financial statements was £29,845 (2014: £29,845).

### 7. Finance costs

	2015 £m	2014 £m
Interest expense on borrowings at amortised cost	18.3	54.0
Amortisation of debt issue costs (note 11)	0.5	0.7
	<u>18.8</u>	<u>54.7</u>

Interest expense on borrowings at amortised cost includes interest of £18.3m (2014: £37.6m) on loans with Group entities.

### 8. Tax charge

#### 8.1 Current year tax charge

	2015 £m	2014 £m
Current tax:		
UK Corporation tax	0.5	4.0
Adjustments in respect of prior years	-	2.0
Total tax charge	<u>0.5</u>	<u>6.0</u>

#### 8.2 Reconciliation of tax charge

	2015 £m	2014 £m
Profit before tax	<u>5.5</u>	<u>18.6</u>
Tax at standard UK rate of 20.25% (2014: 21.5%)	1.1	4.0
Adjustment to shareholder tax charge in respect of prior years	-	2.0
Non-taxable income	(1.8)	-
Disallowable expenses	2.3	-
Recognition of previously unrecognised losses	(1.6)	-
Other	0.5	-
Total tax charge for the year	<u>0.5</u>	<u>(6.0)</u>

### 9. Dividends paid

	2015 £m	2014 £m
Interim dividend paid	<u>273.9</u>	<u>-</u>

## PGH (LC2) LIMITED

### 9. Dividends paid (continued)

On 3 June 2015, the Company paid an interim dividend of £273.9m (2014: £nil).

The interim dividend was satisfied through the transfer of loan assets to the Company's shareholder.

### 10. Share capital

	2015 £m	2014 £m
Issued and fully paid: 1 (2014: 35,625,001) ordinary shares of £1 each	-	35.6
Issued and fully paid: nil (2014: 54,750,000) preference shares of £1 each	-	54.8
	<u>-</u>	<u>90.4</u>

The holders of the ordinary and 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 in excess of the maximum preference dividends;
- On a return of capital, the assets of the Company available for distribution are applied to the preference shareholders in priority to any payment to the holders of the ordinary shares; and
- One vote and one poll vote for every share of which they are the holder.

The holders of the preference shares are entitled to:

- Receive dividends at the discretion of the directors of an amount not more than 15% of the issued price of each preference share;
- On a return of capital, the assets of the Company available for distribution shall be applied in paying to the preference shareholders first, the issued price per preference share and secondly any declared but unpaid dividends; and
- Receive notice of and attend general meetings but may not vote in respect of their holdings of preference shares.

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

On 1 May 2015 the Company converted the preference shares of £1 each into ordinary shares of £1 each. On 3 June 2015, the Company reduced its ordinary share capital to £1 through the cancellation of 90,375,000 ordinary shares of £1 each. The reserve arising on the cancellation of the ordinary shares was taken to retained income.

### 11. Capital contributions

	2015 £m	2014 £m
At 1 January	127.8	127.8
Interim dividend	(127.8)	-
At 31 December	<u>-</u>	<u>127.8</u>

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

On 3 June 2015 the Company paid an interim dividend of £273.9m of which £127.8m was from its capital contribution reserve.



## PGH (LC2) LIMITED

### 12. Borrowings

	Carrying value		Fair value	
	2015	2014	2015	2014
	£m	£m	£m	£m
<b>Loans</b>				
(a) PIK notes from Group entity	-	103.3	-	103.3
(b) £5bn facility from Group entity	-	528.4	-	531.6
(c) £148.7m Loan from Group entity	-	147.8	-	156.2
(d) £450.0m Loan from Group entity	-	414.0	-	414.0
Total borrowings	-	1,193.5	-	1,205.1
Amount due for settlement within 12 months	-	118.3		
Amount due for settlement after 12 months	-	1,075.2		

(a) The Company has issued PIK notes of £154.5m to PGH (MC2) Limited ('MC2'). The PIK notes accrued interest at LIBOR plus a margin of 5.5%. The final maturity date on the PIK notes was 10 October 2015. Under a sale and purchase agreement dated 27 May 2015, the PIK notes were novated to PGH (LCB) Limited ('LCB') for an amount equal to their carrying value.

(b) The Company entered into a £5bn facility agreement with Impala Holdings Limited ('IHL'). Interest accrued at LIBOR plus 2.94% which was payable semi-annually on 30 April and 31 October. The maturity date of this facility is 31 December 2016. During the year, £nil was drawn down under the terms of the facility (2014: £202.0m) and £15.8m (2014: £51.3m) was repaid.

On 27 May 2015, IHL and the Company agreed to offset the amounts due by IHL under the subordinated loans (see note 16) with the amounts due to IHL under the £5bn facility. Under a sale and purchase agreement dated 27 May 2015, balance due under the £5bn facility of £13.8m was novated to LCA for an amount equal to its carrying value.

(c) The Company entered into a £147.8m loan agreement with PGH Capital Limited ('PGHC'). Interest accrued at fixed rate of 6.15%. The maturity date of the loan is 7 July 2021. Under a sale and purchase agreement dated 27 May 2015, the £147.8m loan was novated to LCB at a value of £158.6m.

(d) The Company entered into a loan facility with PGHC. The facility comprises a revolving credit facility ('RCF') loan of £225.0m and a £225.0m amortising term loan. Both loans are repayable on 23 July 2019 with an option to request an extension to the RCF loan by two years to 23 July 2021.

Further terms of the facilities agreement include:

- term facility repayment instalments of £30 million are due semi-annually on 30 June and 31 December each year. Additional target repayments of £30 million may be paid semi-annually on 30 June and 31 December each year from 30 June 2015;
- the term loan and the RCF loan both bear interest at LIBOR plus an opening margin of 3.55% p.a. After six months the margins will change in accordance with a margin ratchet which operates by reference to the Group's gearing ratio. Margins will reduce by 0.50% on achievement of an investment grade rating; and
- amongst other fees, a utilisation fee of 0.25% p.a. is payable in respect of the RCF loan for so long as the amount outstanding under the RCF exceeds 50% of the total commitments of the RCF loan.

Fees associated with this facility were deferred and amortised over the life of the loan in the statement of financial position. At 31 December 2014, the deferred fees were £6.0m. During 2015, £0.5m of these fees were amortised.

Under a sale and purchase agreement dated 27 May 2015, the loan facility and deferred fees were novated to LCB for an amount equal to their carrying value.

#### Nature of borrowings

	2015	2014
	£m	£m
Fixed rate borrowings	-	147.8
Floating rate borrowings	-	1,045.7
	-	1,193.5

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**PGH (LC2) LIMITED**

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**12. Borrowings (continued)**

***Determination of fair value and fair value hierarchy of financial instruments***

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 financial instruments in 2015 or 2014.

Apart from the loss on the novation of the liability of £10.8m (2014: £nil), there were no fair value gains or losses recognised in other comprehensive income.

**13. Tax assets and liabilities**

	2015 £m	2014 £m
<b>Current tax</b>		
Current tax payable	-	2.0

**Deferred tax**

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

	2015 £m	2014 £m
Deferred tax assets have not been recognised in respect of:		
Tax losses carried forward	2.8	4.7

**14. Accruals and deferred income**

	2015 £m	2014 £m
Accrued interest on loans from Group entities	-	7.5
	-	7.5

**15. Investments**

	2015 £m	2014 £m
<b>Cost and carrying value</b>		
At 1 January	871.6	871.6
Disposals	(871.6)	-
At 31 December	-	871.6

The Company held 12.5% of the £1 A and £1 B ordinary shares and 50% of the £1 C ordinary shares of Impala Holdings Limited ('Impala'), a company incorporated, and with its principal place of operation in the UK.

On 27 May 2015 the Company sold its investment in Impala to PGH (LCB) Limited for an amount equal to its carrying value.

## PGH (LC2) LIMITED

### 16. Subordinated loans

	Designated as equity		Designated as loans and receivables	
	2015	2014	2015	2014
	£m	£m	£m	£m
<b>Cost and carrying value</b>				
At 1 January	331.3	331.3	167.5	167.5
Disposals	(331.3)	-	(167.5)	-
At 31 December	-	331.3	-	167.5
<b>Fair value</b>				
At 31 December	-	331.3	-	167.5

The Company held subordinated loans of £498.8m in Impala Holdings Limited ('IHL'). £331.3m of the subordinated loans continue without limit of time and are treated as equity in the financial statements of the borrower. These loans accrued interest at a rate of LIBOR plus 15% per annum. £167.5m of the subordinated loans mature at 30 November 2019 and have been treated as loans and receivables in the financial statements of the borrower. These loans accrue interest at a rate of LIBOR plus 11% per annum.

On 27 May 2015, the amounts due under the subordinated loan by IHL were offset against the amount owed by the Company to IHL under a £5bn loan facility – see note 12.

No loans are considered to be past due or impaired.

#### **Determination of fair value and fair value hierarchy of financial instruments**

Subordinated loans are categorised as Level 3 financial instruments. The fair value of Subordinated loans 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 financial instruments in 2015 or 2014.

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

### 17. Loans to Group entities

	Carrying value		Fair value	
	2015	2014	2015	2014
	£m	£m	£m	£m
(a) £100.6m loan to Group entity	-	100.6	-	100.6
(b) £0.01m loan to Group entity	-	-	-	-
(c) £273.9m loan to Group entity	-	-	-	-
Total loans to Group entities	100.6	100.6	100.6	100.6

- (a) On 24 July 2015, the Company entered into a £100.6m loan agreement with PGH (LCB) Limited ('LCB'). Loan interest accrues at LIBOR plus a margin of 3.50%. The loan has a maturity date of 24 July 2019. Under a sale and purchase agreement dated 27 May 2015, the loan was sold to LCB for an amount equal to its carrying value.
- (b) The Company and PGH (LC1) Limited jointly granted a loan to PGH Capital Limited ('PGHC') of £10,000. The annual interest is equivalent of an amount equal to the excess, if any, of all net income, profit and gains of PGHC for PGHC's most recently completed accounting period (excluding interest payable hereunder), over £3,000. The loan is repayable on demand. Under a sale and purchase agreement dated 27 May 2015, the loan was sold to LCB for an amount equal to its carrying value.
- (c) On 27 May 2015, the Company and LCB entered into a sale and purchase agreement whereby the Company sold all of its assets and liabilities to LCB in exchange for two loans totalling £273.9m. The two loans accrued interest at LIBOR plus a margin of 2.90% and had a maturity date of 27 May 2020. Shortly thereafter, the rights and obligations of the Company under the loan agreements were assigned to PGH (MC2) Limited, the assignment being satisfied through the declaration of interim-specie dividends.

No loans are considered to be past due or impaired.

## 17. Loans to Group entities (continued)

### *Determination of fair value and fair value hierarchy of loans to Group entities*

Loans and receivables are categorised as Level 3 financial instruments. The fair value of loans to Group entities 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 loans to Group entities in 2015 or 2014.

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

## 17. Cash flows from operating activities

	2015 £m	2014 £m
Profit for the year before tax	5.5	18.6
Non-cash movements in profit for the year before tax in respect of:		
Interest income on loans and receivables	(1.4)	(0.4)
Interest expense on borrowings	4.6	5.6
Amortisation of debt issue costs	0.5	0.7
Fair value loss on sale of loan asset	10.8	-
Changes in operating assets and liabilities	(4.2)	17.1
Cash generated by operations	15.8	41.6

## 18. Capital and risk management

The Company's capital comprises share capital and all reserves. At 31 December 2015 total capital was £nil (2014: £268.9m). The movement in capital in the year comprises the retained profit for the year of £5.0m (2014: £12.6m) offset by dividends paid of £273.9m (2014: £nil).

There are no externally imposed capital requirements on the Company. The Company's capital is monitored by the Directors and managed on an on-going basis via a monthly close process to ensure that it remains positive at all times.

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 by the Company;
- liquidity risk, exposure to 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 and is significantly reduced as assets are primarily inter-company receivables from other group entities.

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.

## 20. 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 2015, the Company received interest on loans to fellow subsidiaries of £33.7m (2014: £73.0m), paid interest to fellow subsidiaries of £13.7m (2014: £23.4m).

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**PGH (LC2) LIMITED**

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**20. Related party transactions (continued)*****Amounts due to related parties***

	2015 £m	2014 £m
Loans due to immediate parent	-	103.3
Loans due to fellow subsidiaries	-	1,090.2
Other amounts due to fellow subsidiaries	-	4.1

***Amounts due from related parties***

	2015 £m	2014 £m
Loans due from fellow subsidiaries	-	599.4
Other amounts due from immediate parent	-	4.6
Other amounts due to ultimate parent	-	0.1

***Key management compensation***

The total compensation payable to employees classified as key management, which comprises the Directors, is disclosed in note 5.

***Parent and ultimate parent entity***

Information on the Company's parent and ultimate parent is given in note 21.

**21. Other information**

The Company's principal place of business is the United Kingdom. The Company's immediate parent is PGH (TC2) Limited and its ultimate parent is Phoenix Group Holding, a company incorporated in the Cayman Islands and resident in Jersey. A copy of the financial statements of Phoenix Group Holdings can be obtained from the Company Secretary, 1<sup>st</sup> Floor, 32 Commercial Street, St Helier, Jersey, JE2 3RU.