

Phoenix Group Holdings announces that it expects 2014 cash generation to be towards the top end of its target range of £500 - £550 million

Highlights

- £438 million of cash generation¹ in the 9 months to 30 September 2014 (HY14: £332 million), excluding the proceeds of the divestment of Ignis Asset Management (“Ignis”). Full year cash generation expected to be towards the top end of the target range of £500 – £550 million (excluding Ignis divestment proceeds).
- In addition, £390 million has been received from the divestment of Ignis completed on 1 July 2014, resulting in total cash receipts in the 9 months to 30 September 2014 of £828 million (HY14 pro forma²: £722 million).
- Total Holding Company cash³ of £957 million at 30 September 2014 (HY14 pro forma²: £990 million).
- Estimated IGD⁴ surplus and headroom both remained stable at £1.1 billion and £0.4 billion respectively at 30 September 2014 (HY14 pro forma²: £1.1 billion and £0.4 billion).
- Estimated PLHL ICA⁴ surplus and headroom both remained stable at £0.7 billion and £0.6 billion respectively at 30 September 2014 (HY14 pro forma²: £0.7 billion and £0.6 billion).
- Estimated Phoenix Life free surplus, which represents excess capital over the life companies’ minimum requirements and the capital policies, was £297 million at 30 September 2014 (HY14: £379 million).

Clive Bannister, Group Chief Executive, commented:

“Phoenix has continued its strong financial performance into the second half and I am delighted to confirm that we expect to be towards the top end of our 2014 cash generation target range. We look set to finish the year in a good financial position, having successfully completed a comprehensive debt refinancing in July and achieved our 40% gearing target 18 months ahead of schedule.”

Financial overview

Cash generation

Holding Companies³ cash flows	9 months to 30 September 2014⁵ £m	9 months to 30 September 2013 £m	Full Year 2013 £m
Cash and cash equivalents at 1 January	995	1,066	1,066
Cash receipts			
Cash receipts from Phoenix Life	317	427	794
Cash receipts from Ignis	32	7	23
Cash receipts from divestment of Ignis	390	-	-
Other cash receipts	89	-	-
Total cash receipts	828	434	817
Operating expenses	(19)	(26)	(34)
Pension scheme contributions	(84)	(89)	(96)
Debt interest	(63)	(108)	(147)
Debt repayment	(541)	(565)	(696)
Proceeds of capital raising net of fees	-	211	211
Other non-recurring cash outflows	(39)	(4)	(6)
Shareholder dividends	(120)	(120)	(120)
Total uses of cash	(866)	(701)	(888)
Cash and cash equivalents at end of period	957	799	995

Cash receipts

£828 million of cash was received by the Holding Companies in the 9 months to 30 September 2014, of which £390 million was from the divestment of Ignis Asset Management to Standard Life Investments (Holdings) Limited that completed on 1 July 2014. Other cash receipts comprised £68 million from the restructure of the PGL pension scheme longevity arrangements and £21 million from the sale of BA(GI) Limited.

Cash uses

Pension scheme contributions of £84 million as at 30 September 2014 include £68 million of contributions to the Pearl pension scheme.

The debt interest payments reflect the lower debt principal balances over the period and the reduced costs associated with the Group's interest rate swap arrangements which were closed out during 2013. The debt repayments include the £250 million debt prepayment following the divestment of Ignis and the £206 million debt prepayment associated with the single silo bank refinancing, both of which completed in July 2014.

Other non-recurring cash outflows include costs and payments relating to the divestment of Ignis and the bank refinancing.

Although the 2014 interim dividend payment date was 2 October, the cash was paid out of the Group on 30 September, and is therefore reflected in the Holding Company cash outflows for the nine months to 30 September 2014.

Capital⁽⁴⁾

Phoenix Life Free Surplus

The estimated Phoenix Life free surplus, which represents excess capital over the life companies' minimum requirements and capital policies, decreased by £82 million to £297 million at 30 September 2014 (HY14: £379 million). This decline was primarily as a result of cash distributed to the Holding Companies and the adverse impact of decreasing yields, partially offset by management actions achieved in the third quarter.

IGD

Overall, the estimated IGD surplus and headroom remained stable at £1.1 billion and £0.4 billion respectively as at 30 September 2014 (HY14 pro forma²: £1.1 billion and £0.4 billion). The IGD position includes the impact of the payment of the interim dividend.

PLHL ICA

The estimated PLHL ICA surplus and headroom both remained stable at £0.7 billion and £0.6 billion respectively at 30 September 2014 (HY14 pro forma²: £0.7 billion and £0.6 billion). The negative impact of decreasing yields was offset by management actions achieved in the third quarter. The PLHL ICA position includes the impact of the payment of the interim dividend.

Solvency II

The Group's activities in relation to Solvency II have continued to be focused primarily on the preparation of the Group's Internal Model Application, as well as on monitoring the progress of the development of the Solvency II regulations. The UK insurance industry is still awaiting details from regulatory authorities on the specific details in relation to the implementation of Solvency II. The Group is working towards a capital position that is aligned with the PLHL ICA surplus; however, this is subject to regulatory approvals and should not be seen as representing the views of the Prudential Regulation Authority.

Financial targets

Cash distributions to the Holding Companies tend not to be evenly spread throughout the year as they depend on the free surplus within the life companies and the timing of management actions. However, having generated £438 million of cash in the first three quarters of the year, the Group expects full year cash generation to be towards the top end of its target range of £500 - £550 million (excluding the Ignis divestment proceeds). The Group's long term cash generation target of £2.8 billion between 2014 and 2019 includes the Ignis divestment proceeds.

Notes

1. Operating companies' cash generation is a measure of cash and cash equivalents, remitted by the Group's operating subsidiaries to the Holding Companies and is available to cover dividends, bank interest and other items.
2. All pro forma financial information at HY14 assumes that the proceeds from the divestment of Ignis and subsequent £250m debt prepayment, the £300m 5.75% 7 year senior unsecured bond issue and the £900m unsecured bank refinancing and associated £206m debt prepayment had taken place on 30 June 2014.
3. The cash flow analysis is presented for the Holding Companies above the operating companies and includes Phoenix Group Holdings.
4. Any references to IGD and PLHL ICA relate to the calculation for Phoenix Life Holdings Limited, the ultimate EEA insurance parent undertaking.
5. Excludes the impact of the £300 million proceeds of the senior unsecured bond issue in July 2014, which were used to reduce debt by £296 million and pay costs of £4 million, resulting in a cash neutral position in the analysis of cash flows.

Enquiries

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Further information

- A conference call for analysts and investors will take place at 9.30am (BST) today.
The dial in number is +44 20 3059 8125
Please quote "Phoenix".

Access to the audiocast, with the facility to ask questions, will also be available via our website www.thephoenixgroup.com. A replay will be made available on the website.

- Phoenix Group will be holding an Investor Day on 25 November 2014.
- Financial calendar

Full year 2014 results
Q1 2015 IMS

18 March 2015
24 April 2015

- The financial information contained in this announcement has not been audited or reviewed by the Group's auditors.

Forward looking statements

This announcement in relation to Phoenix Group Holdings and its subsidiaries (the 'Group') contains, and we may make other statements (verbal or otherwise) containing, forward-looking statements and other financial and/or statistical data about the Group's current plans, goals and expectations relating to future financial conditions, performance, results, strategy and/or objectives.

Statements containing the words: 'believes', 'intends', 'will', 'expects', 'plans', 'aims', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking. Such forward-looking statements and other financial and/or statistical data involve risk and uncertainty because they relate to future events and circumstances that are beyond the Group's control. For example, certain insurance risk disclosures are dependent on the Group's choices about assumptions and models, which by their nature are estimates. As such, actual future gains and losses could differ materially from those that the Group has estimated.

Other factors which could cause actual results to differ materially from those estimated by forward-looking statements include but are not limited to: domestic and global economic and business conditions; asset prices; market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of governmental and/or regulatory authorities, including, for example, new government initiatives related to the financial crisis and ultimate transition to the European Union's "Solvency II" Directive on the Group's capital maintenance requirements; the impact of inflation and deflation; market competition; changes in assumptions in pricing and reserving for insurance business (particularly with regard to mortality and morbidity trends, gender pricing and lapse rates); the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; risks associated with arrangements with third parties; inability of reinsurers to meet obligations or unavailability of reinsurance coverage; the impact of changes in capital, solvency or accounting standards, and tax and other legislation and regulations in the jurisdictions in which members of the Group operate.

As a result, the Group's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set out in the forward-looking statements and other financial and/or statistical data within this announcement. The Group undertakes no obligation to update any of the forward-looking statements or data contained within this announcement or any other forward-looking statements or data it may make or publish. Nothing in this announcement should be construed as a profit forecast or estimate.