PHOENIX GROUP

Phoenix Group Holdings: Q1 2012 Interim Management Statement 4 May 2012

Phoenix Group Holdings announces cash generation of £100 million between 1 January 2012 and 4 May 2012.

Phoenix remains confident in its ability to deliver all of its 2012 financial targets, including cash generation of £500 - £600 million.

Financial and operational highlights

- £100 million of cash generation[1] between 1 January 2012 and 4 May 2012
- Estimated IGD surplus of £1.3 billion at 31 March 2012 (FY11: £1.3 billion). Estimated IGD headroom increased by £0.1 billion to £0.5 billion as at 31 March 2012 (FY11: £0.4 billion)
- £388 million of net third party asset inflows generated by Ignis, bringing total Group Assets Under Management to £71.6 billion at 31 March 2012 (FY11: £72.1 billion)
- On track to meet all 2012 financial targets, comprising operating companies' cash generation of £500 - £600 million, annual incremental MCEV enhancements of £100 million on average 2011 – 2014 and gearing of 43% or below
- Gained Court approval for the transfer of the business of NPI Limited to Phoenix Life Limited

Clive Bannister, Group Chief Executive, commented:

"The Phoenix Group continues to demonstrate real operating strength and I am pleased with the Group's solid financial performance in the first quarter. I remain confident in our ability to deliver on our stated 2012 financial targets, and to progress discussions with our lenders regarding the reterming of our bank debt on terms which are sensible for all stakeholders.

"The transfer of the NPI business to Phoenix Life demonstrates our capacity to generate substantial value for both shareholders and policyholders. It is one of a number of management actions that we will progress in 2012, which will accelerate cashflow, enhance MCEV and improve the Group's capital position."

Financial overview

Cash generation

Holding Companies'[3] cash flows	**Q1 2012 £m**	**Q1 2011 £m**
Cash and cash equivalents at 1 January	837	486
Operating companies' cash generation		
Cash receipts from Phoenix Life	3	-
Cash receipts from Ignis Asset Management	3	14
Total receipts of cash	**6**	**14**
Uses of cash		
Recurring cash outflows		
Pension scheme contributions	5	2
Operating expenses	4	11
Debt interest	17	6
Debt prepayment	-	21
Total recurring cash outflows	**26**	**40**
Non-recurring cash outflows		
IT and other business transformation costs	-	10
Transaction and restructuring costs	2	2
Total non-recurring cash outflows	**2**	**12**
Total uses of cash	**28**	**52**
Cash and cash equivalents at 31 March	**815**	**448**

£6 million of cash was received by the Holding Companies in the 3 months to 31 March 2012 with a further £94 million received subsequently, mostly from Phoenix Life. This is in line with our previously announced expectation that 2012 cash remittances will be weighted towards H2.

Management actions

£25 million of the £100 million of cash received since 31 December 2011 has been generated through management actions, including the transfer of the business of NPI Limited to Phoenix Life Limited.

We continue to focus on restructuring, risk management and operational management activities which will accelerate cash generation and enhance MCEV during the remainder of 2012.

Capital

The estimated IGD[2] surplus remained stable at £1.3 billion (FY11: £1.3 billion). The estimated IGD headroom has increased by £0.1 billion since 31 December 2011 to £0.5 billion at 31 March 2012. Estimated IGD Excess Capital also increased by £0.1 billion from £3.1 billion at 31 December 2011 to £3.2 billion at 31 March 2012.

The increases in IGD headroom and IGD Excess Capital were primarily driven by the completion of the transfer of the business of NPI Limited to Phoenix Life Limited, which became effective following regulatory and court approvals.

Following this transfer, all the UK life business in the Impala silo is now within Phoenix Life Limited. Work is underway to progress a further merger within the Pearl silo.

Ignis

Ignis generated net inflows from third parties of £388 million in the 3 months to 31 March 2012, primarily in the Absolute Return Government Bond Fund and liquidity and property funds, demonstrating the continued development of its proposition and reputation as a manager of third party assets. Third party inflows partly offset the run-off of the closed life funds, resulting in total Group Assets Under Management of £71.6 billion at 31 March 2012 (FY11: £72.1 billion).

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. Any references to IGD relate to the calculation for Phoenix Life Holdings Limited, the ultimate EEA insurance parent undertaking.
3. The cash flow analysis is presented for the Holding Companies above the operating companies and includes Phoenix Group Holdings.

Enquiries

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Further information

- A conference call for analysts and investors will take place at 9.30am (UK time) today. Dial in number is +44 (0) 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.

- Financial calendar 2012

Interim Results 2012	23 August 2012
Q3 2012 IMS	31 October 2012

- 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 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', 'expects', 'plans', 'seeks', 'targets', 'continues' and 'anticipates' or other words of similar meaning are forward-looking. Forward-looking statements 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 we have 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 the effect of the European Union's "Solvency II" requirements 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, including joint ventures; 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 within this announcement. The Group undertakes no obligation to update any of the forward-looking statements contained within this announcement or any other forward-looking statements it may make. Nothing in this announcement should be construed as a profit forecast.