PHOENIX GROUP

Phoenix Group Holdings

Interim Management Statement – 3 months to 31 March 2010

Highlights

- Strong cash generation in the period of £270 million.
- Management actions on track to meet target of £225 million of accelerated cash flow for FY2010 over and above recurring cash flow.
- Recurring cash flow in line with target of £400 million to £500 million in FY 2010.
- Management actions on track to deliver target of £145 million incremental embedded value growth in 2010.
- Insurance Groups Directive ("IGD") surplus remains robust at an estimated £1.3 billion.
- Total assets under management of £69.4 billion at 31 March 2010.

Progress on corporate objectives

- Discussions with Tier 1 bondholders were brought to a successful conclusion, with 99.9% of votes cast in favour of the agreement.
- The necessary preparatory work to proceed with a Premium Listing on the London Stock Exchange is well advanced.
- The Company continues to negotiate with the contingent rights holders to reduce the outstanding dilutive instruments to below the threshold required for the Premium Listing. Any agreement would be subject to the approval of shareholders at the Company's AGM on 23 June.
- Provided agreement is reached with the contingent rights holders, the Company expects to issue a prospectus in early June and for the Premium Listing to become effective by the end of June 2010.
- Phoenix Group Holdings is not raising any new capital in connection with the Premium Listing.

Jonathan Moss, Group Chief Executive, said

"We continue to enjoy strong operational performance. This is demonstrated by the cash generation of £270 million in the first quarter, and we are on track to deliver our targets for cash flow and management actions. As we complete our integration plans for the operating businesses and deliver on our corporate objectives into 2011 and beyond, we will be well-placed to fulfil our ambition to play the leading role in the safe decommissioning of the closed life sector.

"These results demonstrate the strength of our closed-book business model. Subject to agreement on the contingent rights, we look forward to issuing our prospectus in early June and obtaining a Premium Listing on the London Stock Exchange by the end of that month."

17 May 2010

Cash generation

Holding company cash inflows have remained strong in the period at £270 million.

UK holding company cashflow (£m)	**Q1 2010**
Sources of cash	
Cash inflows from life companies	261
Cash inflows from Ignis Asset Management	9
Total receipts of cash	**270**
Uses of cash	
Non-recurring cash outflows	
IT and other business transformation costs	15
Listing and Tier I restructuring costs	4
Non-recurring cash outflows	**19**
Recurring cash outflows	
Pension scheme contributions	2
Operating expenses	6
Debt interest	7
Recurring cash outflows	**15**
Total uses of cash	**34**

Cash is typically distributed from the life companies twice a year, following the full actuarial valuations at 31 December and 30 June each year. The Q1 2010 cash generation of £270 million includes the receipts from the life companies following the 31 December 2009 valuation.

We are on track to deliver on our previously announced target for recurring cashflows from our operating subsidiaries of £400 to £500 million per annum.

In line with expectations, we incurred operating expenses of £6 million during the first three months of 2010. As mentioned during our FY 2009 results presentations and borne out by our Q1 2010 results, non-recurring cash outflows in 2010 are expected to be significantly lower than in 2009.

Management actions

We are on track to deliver our targeted management actions in 2010 resulting in cash flow acceleration of £225 million over and above our target £400 million to £500 million recurring cash flows and increases in Embedded Value of £145 million.

These management actions include

- The transfer of the business of Phoenix and London Assurance Limited into Phoenix Life Limited, which is likely to be completed in the final quarter of the year.
- Restructuring of certain of our outsourcer relationships anticipated to be completed in the second half of 2010.
- Utilisation of previously unrelieved tax losses within the Group and resolution of legacy tax and other issues.

Capital

The IGD surplus remains robust at an estimated £1.3 billion.

Our Solvency II project has been approved by the Board and is well underway. It is expected to deliver its next major milestone of entering the pre-application process for internal model approval by the FSA in July 2010. This is an important step which allows us to progress obtaining approval to use internal models to calculate the solvency capital requirement (SCR) rather than relying on the standard formula. Our own models better reflect the risks within our businesses than the "one-size-fits-all" standard formula and should therefore give a more appropriate assessment of the capital required to support our business, consistent with how we manage the business.

It is also positive that the assumptions used in the latest quantitative impact study (QIS5) are much closer to those used in our existing internal models than was the case in QIS4.

AUM

Assets under management at Ignis increased to £69.4 billion. The increase was due to the management of £2.9 billion of assets being brought in-house from a third party asset manager. The underlying position was stable as the impact of run-off of the internal funds managed by Ignis was offset by new third party funds and positive market movements.

Enquiries

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Notes

1. A conference call for analysts and investors will take place at 9.30am (UK time) today. Dial in number is +44 (0) 20 3059 5845

   A replay will be made available on the website www.thephoenixgroup.com

2. A media call will take place at 7.30am (UK time) today. Dial in number is +44 (0) 1452 568 051 and the access code is 73242412

3. Financial calendar

2010 interim results	27 August 2010
2010 third quarter IMS	5 November 2010

4. Any references to IGD relate to the calculation for Phoenix Life Holdings Ltd, the ultimate EEA Insurance parent undertaking.

5. This announcement in relation to Phoenix Group Holdings and its subsidiaries (the "Group") contains forward looking statements concerning future events. Those forward looking statements are based on the current information and assumptions of the Group's management concerning known and unknown risks and uncertainties. Forward looking statements do not relate to definite facts and are subject to risks and uncertainty. The actual results and financial condition of the Group may differ considerably as a result of risks and uncertainties relating to events and circumstances beyond the Group's control including among other things, domestic and global economic and business conditions, market related risks such as fluctuations in interest rates and exchange rates, and the performance of financial markets generally; the policies and actions of regulatory authorities, the impact of competition, inflation, and deflation; experience in particular with regard to mortality and morbidity trends, and lapse rates; the timing, impact and other uncertainties of future acquisitions or combinations within relevant industries; and 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. The Group cautions that such statements are only valid on the specified dates, and accepts no responsibility for the revision or updating of any information contained in this announcement or any other forward-looking statement it may make.

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