PHOENIX GROUP

Phoenix Group Holdings: Q1 2011 Interim Management Statement 16 May 2011

Phoenix Group Holdings has delivered over £300 million of operating cashflows in the four months to end April 2011. Phoenix remains confident that it will be successful in delivering all of its 2011 financial targets, including £750-850 million of operating cash flows.

Financial highlights

- On track to meet £750-850 million target for operating companies' cash generation[1] in 2011.
- On track to meet £100 million target for incremental MCEV enhancement in 2011.
- On track to meet target of reducing gearing[2] to below 50% by the end of 2011.
- Assets under management of £67.0 billion at 31 March 2011.
- Estimated IGD Excess Capital[3] of £2.9 billion at 31 March 2011 (31 December 2010: £2.8 billion).

Clive Bannister, Group Chief Executive, commented:

"I am pleased that we have continued to produce solid financial performance. I am confident that we will continue to deliver throughout the rest of 2011 and meet the challenging targets we set for the year."

Cash generation

Holding Companies'[4] cash flows	Q1 2011 £m	Q1 2010 £m
Cash and cash equivalents at 1 January	486	202
Operating companies' cash generation		
Cash receipts from Phoenix Life	-	261
Cash receipts from Ignis Asset Management	14	9
Total receipts of cash	**14**	**270**
Uses of cash		
Recurring cash outflows		
Pension scheme contributions	2	2
Operating expenses	11	8
Debt interest	6	7
Debt prepayment	21	-
Total recurring cash outflows	**40**	**17**
Non-recurring cash outflows		
IT and other business transformation costs	10	15
Transaction and restructuring costs	2	4
Total non-recurring cash outflows	**12**	**19**
Total uses of cash	**52**	**36**
Cash and cash equivalents at 31 March	**448**	**436**

£14 million of cash was received by the Holding Companies in the 3 months to 31 March 2011 with a further £300 million received in April 2011 from Phoenix Life. Cash is typically distributed from Phoenix Life to the Holding Companies twice a year following full actuarial valuations at 30 June and 31 December. The timing of these remittances does vary.

Management actions

The Q1 2011 results do not reflect any benefit from cash flow acceleration or incremental embedded value management actions. A number of projects are underway which are expected to deliver benefits during the remainder of 2011. These include activities in restructuring, risk management and operational management.

Assets under management

Assets under management were £67.0 billion at 31 March 2011 (31 December 2010 £67.5 billion). The decrease was driven by the run-off on the closed life book and a small outflow in net new business (£99m), partly off-set by investment growth.

Capital

The estimated IGD surplus at 31 March 2011 was unchanged from year end at £1.0 billion. The estimated IGD Excess Capital is £2.9 billion (31 December 2010: £2.8 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. Gearing is calculated as net shareholder debt as a percentage of the sum of Group MCEV, net shareholder debt and the present value of future profits of Ignis. Net shareholder debt is shareholder debt (including hybrid debt) less Holding Companies cash and cash equivalents.
3. Any references to IGD relate to the calculation for Phoenix Life Holdings Limited, the ultimate EEA insurance parent undertaking. IGD Excess Capital includes policyholder and certain shareholder capital which is currently excluded under FSA rules from the calculation of IGD surplus at the Phoenix Life Holdings Limited level.
4. The cash flow analysis is presented for the UK 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 9.00am (UK time) today. Dial in number is +44 (0) 20 3059 5845. 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 2011

Interim Results 2011	25 August 2011
Q3 2011 IMS	8 November 2011

- 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.