PHOENIX GROUP

Phoenix Group Holdings
Full Year Results Presentation [Morning]
Wednesday 31 March 2010

Ron Sandler
Chairman

Ladies and gentlemen good morning. I think we have reached that appointed time. So welcome to this results Presentation of Phoenix Group. Very pleased to have you here and we hope you will enjoy what it is we have to say to you this morning. It does feel very good for me to be standing up here today. When we stood up in front of you back in October and gave in effect the half year results for last year, we set out post the Liberty acquisition how Pearl Group as it then was, Phoenix as it is now, had been stabilised by that. And we also set out a bunch of things that we said we would do over the ensuing period. And I am very pleased to be able to stand up today and tell you we are making excellent progress in knocking those things off the list. You are going to hear the words 'As we said we would' a great deal today, because we did set out a list of things that we said we would do in the latter part of last year and the early part of this and indeed many of those things have now been achieved and we are getting ever closer to the point where we can put the past fully behind us and look forward to the future we have promised.

2009 was a very important year, both from the perspective of Liberty and indeed from the then Pearl Group. The acquisition of the Pearl businesses by Liberty, the associated recapitalisation and the restructuring of the debt which collectively added about £1 billion in capital improvement for the Group. And of course we have changed the name from Pearl to Phoenix Group. And you will hear the word, Pearl used occasionally today, mostly in error as we adjust ourselves to our new name. But we are now Phoenix Group and we are moving forward confidently under that banner.

Ours is a simple business model which Jonathan and Simon will explain in more detail this morning. It is a simple business model and financially attractive in that it delivers healthy and stable cashflows and it is also a socially desirable model we believe, in that as the 'with profits' sector is increasingly in run off, we see ourselves as the natural consolidator and the long term home for many of those funds which no longer have the sort of stable ownership and stable operating arrangements that the policy holders will need. We see ourselves as the natural consolidator of Closed Life funds. And I will highlight as you can see on the slide below, a number of reasons why we say that. That is to do with the efficient outsourced scale platform. The outsource platform which is of a sufficient scale. The fact that we have a substantial ALM capability and our scale in general. The fact that we have close to £70 billion of assets under management.

As I said the words "we are delivering" will come up time and time again in this presentation. We are delivering on the key metrics. We promised strong cash generation, we are delivering that. We promised increased embedded value, we have delivered on that. We promised a robust capital adequacy position for the Group and that indeed is also in place.

And we are on track to achieve the premium LSE listing in the first half of 2010 and as part of that, we have taken considerable steps to strengthen the governance arrangements of the Group. We have made a number of new Board appointments and we now have a Board where independents are in the majority.

Overall we are an enlarged group which has ended 2009 in good financial health, considerably stronger than when we started, almost immeasurably stronger from where we started and we do look forward to the future with great confidence.

And on that note I am going to hand over to Jonathan who will give you much more detail on what has been happening in the Group.

Jonathan Moss
Chief Executive

Thanks Ron. I would just like to echo Ron's welcome. Thank you all for coming along to hear about the first set of Results for Phoenix Group Holdings. Phoenix Group Holdings itself during 2009 spent 8 months as a cash shell and for 4 months had the original Pearl businesses underneath it. As a result of that what we have done for the most part is prepared results on a pro forma basis, so what you will actually see is the full year's performance for the original Pearl businesses which is both a truer reflection of how the underlying business has performed and how it is likely to perform going forward. So obviously bear that in mind as we go through.

Now as Ron said, what we have is simple. The starting point for us is that this is a simple business model and therefore it should be comparatively easy to understand where the value is going to come from. Key in all of that, the core of the business, is obviously the life companies. 6 ½ million policy holders, £5 billion of capital resources which are both policy holder and shareholder capital and as those businesses run off, that capital will be released to the benefit of both policy holders and shareholders. IGD surplus of £1.2 billion. About £60 billion of liabilities in the business which we think makes us about three times larger than any of the other closed fund consolidators.

In addition to that, two relatively simple P&L businesses. Asset management has £67 billion of assets under management, receives fee streams from the life companies and also has a third party franchise. Last year that meant £111 million of revenue into that business. All of the employees who work for, or do work on behalf of, the life companies are employed within the management services division and that receives revenue from the life companies and obviously its success is in operating efficiently, living within its means. There are about 700 people working in management services. So all of the cash produced, whether that is the margins in the life companies, together with the release of capital or the profits from the service company and asset management division, then flow up to the holding companies. They meet corporate costs, pension scheme contributions and then debt service and amortisation. Any excess cash is then available to be pushed up to the top Co and then paid as dividends to shareholders. And obviously the business model is about maximising that flow of dividends.

So 2009, there was much to do during 2009 both at the corporate level and at the operating level. Corporately, we obviously had to go through the Liberty transaction. As a result of which we were able to strengthen the balance sheet of the Group as a whole by over £1 billion. £500 million of debt reduction, £500 million of new cash coming in from Liberty. Revised governance arrangements with Ron coming on board as Chairman, together with other independent non executives, which means that we now have a combined code compliance Board structure.

We have also done work on tidying up the capital structure, including exchanging warrants for shares and very importantly last week we announced that we had reached in principle agreement with the ad hoc bond holder group and we will shortly be looking to push out the process essentially by which that transaction will get approved by bond holders. The bond holder group itself represents in excess of 60% of bond holders. So we feel that that deal will be well supported. And again that is another important step forward.

And finally, we are now producing IFRS financials which will help hopefully in giving you greater transparency on the Group and an ability to compare us with our peers.

Whilst all that has been going on at the corporate level, underlying operating businesses have been performing well. We have continued to work on the bringing together of our life companies, reducing the number of life companies that we have got, getting the associated financial synergies so putting Phoenix, Scottish Mutual and Scottish Providence into Phoenix Life Limited and splitting up National Provident Life and moving some of its business into Pearl and so forth.

We have been operationally consolidating our sites. The closure of Glasgow finished last week and the closure of Peterborough will happen during 2010. Moving from three sites into one so that we can run our business more efficiently from that single centralised site.

Within Asset Management, I think the key thing I would point to is that the majority of the funds within the life companies had investment performance which was in excess of the benchmark, probably by somewhere between 50 and 150 basis points and that is both a good reflection on the asset management business itself but clearly is also producing value within the Life companies.

As a result of all of that work, all of that activity, that has then delivered these financial outcomes this year which are very helpful in developing the Group. So £716 million of cash emerging which is some proof of the concept of the business model I set out on the previous page. MCEV has grown to £1.8 billion and as a result of the re-capitalisation and markets, we have seen an IGD capital surplus increase to £1.2 billion.

Now one of the things that we have done very importantly is to change the way that we are reporting the inherent value within the business. And this is a reflection of the feedback we have had from the market, that our embedded value approach was not consistent. We sought to make our approach now much more consistent with what you would see from the peer group. As a result of that, however, it is very important that when you think of the Group, you think of it in its component parts. So now the embedded value which is reported on, is on a basis which is approaching the CFO forum basis. We are only looking at the value within the life company, plus the net assets of asset management and from the service company.

In order to capture the whole value of the enterprise you need to also look at the value inherent in the asset management business and the service companies. We have illustrated here the VIF that would have been included in our old style EV. Clearly what we are expecting going forward is that you will use your own valuation methods, fee multiplier or whatever else. But as I say, the essential thing is that in order to catch the whole value of the business, it is now sum of the parts valuation. This is the basis we will be reporting on going forward. So even though we have sort of made a bridge between our old EV basis and the new one. This is the mechanism by which we will be looking at value going forward.

I will hand over to Simon.

Simon Smith
Group Finance Director

Great. Morning. Thank you Jonathan. So this has been a year of strong performance of our operating businesses across all of our key metrics. And we have previously discussed in these sort of forum the three measures that we look at in terms of how we assess the financial performance of the business, cash, capital and embedded value. And we report on those again. But in addition this time we produce audited IFRS numbers for the first time as we said we would. And we have also got audited CFO forum market based market consistent EV numbers again for the first time as we said we would do.

Turning to the numbers themselves, our operating business produced very strong cashflows at £716 million for the full year, ahead of what we said in our Q3 update and we will cover that in some more significant detail in a moment. As Jonathan said, we have also moved our EV reporting basis to enable a sum of the parts valuation. The life company embedded value, less the debt, less the corporate debt, stood at £1.8 billion at 31 December, and that excludes the value of the service company and asset management business. For completeness here, we have also set out what it would have been under our old basis, including the asset management business and service company and our embedded value. And that would increase the EV from the old £1.8 billion to £2 ½ billion. Our IFRS operating profits for the full year came in at £457 million. Our asset management business has been stable in terms of assets under management. And then just looking at market consistent embedded value at £1.8 billion and dividing that by the current shares in issue of 132 million shares would give an MCEV per share of £13.81. Now that excludes, as I said, the value for asset management and the service company.

Now finally we said we would pay a pro rata 50 cents dividend for 2009. And we are announcing today our first dividend, which is on target, to be paid on 15 April. So that is the summary. We will just now drill into some of the detail and starting with cash and capital. And as Jonathan said, you know ours is a pretty simple model, but it is also simple in cash terms as well. Looking at our service company and our asset manager, basically the IFRS profits turn into cash. So from the service company we had £35 million in the year and £21 million from the asset manager. But then our major cash contribution will come from our life companies. And the £660 million represents effectively the surplus assets that are generated over the required risk capital for those businesses, plus the capital buffers that they hold. And that surplus derives from emerging fees and charges that we are able to take in the life companies, the return on the net assets within the life companies. And then the distribution of assets that are represented back in capital, which can be released as policies in the business run off. So year on year as polices run off. So the capital to support those policies can also be released. And for the first time here we show a five year target in terms of cash releases for the business at £2.7 billion and we will go on to say a little bit more about that £2.7 billion over five years in a minute.

So getting into a little bit more detail in terms of the cash. Notwithstanding the markets in 2009, our cash has been generated steadily through the year. We show that the build up as reported at the half year and then as reported at the nine months stage and then into the full year, which demonstrates the predictability of the cashflows going forward. Within our £716 million, is the benefit of some £275 million of initiatives which we have taken to generate and accelerate cashflow in the year and I will say a little bit more about that. That is about the management actions we have talked about, what value do we actually add to the business.

I also set out here the uses of cash. And that is split between recurring and non recurring. And 2009 has really been a year of trying to reduce a lot of the complexity in our business. And that is really what the non recurring cashflows represent. We use a significant amount of that £716 million our emerging cashflow to settle the outworkings of the 2008 deal with Royal London, where we sold various components of the business to them to effectively settle the outstanding amounts on that deal. We are now current with our bank debt. We have stability with our pension funds. We made a one off payment of £25 million in the year. We settled all our transaction costs and we have paid outstanding transformation, business transformation fees to our outsources and the cost associated with closing Glasgow and Peterborough.

And that leaves a very clean line of sight through to our expected future uses of cash. The normal recurring cashflows. And in '09 we set out here our ongoing pension scheme contributions. We set out what our corporate expenses have been and then we set out what our debt interest has been for the full year. And at the end of 2009 we have also built some further cash buffers and put some cash aside from which the dividend we pay today comes.

So that was 2009. What about the future cashflows? And as I say our target for cashflows for the next five years stands at £2.7 billion. And that is derived in exactly the same way, looking at effectively the flows from our life companies, the flows from our asset managers, and the flow from the service companies. And that £2.7 billion includes the benefit in 2010 and 2011 of some £300 million of management actions. Now that is the further actions to accelerate cash and over the ten years, we target cashflows at £4.3 billion. Now against that we set out what we pay by normal recurring fees. Corporate costs in the region of £20-30 million a year. Pension scheme contributions of £25-35 million a year. Now that represents the old Pearl scheme and the old Britannic scheme where we have had an ongoing valuation of the Britannic scheme and we expect that to come through in the next six months and there is an allowance for that in a £25-35 million amount for the pension scheme. We have got our bank interest at £100 million a year. The Tier 1's on the basis of the restructuring proposals that we think now we will push forward with very shortly of £28 million a year. And then we have just got the one extra item of the run off of those transformation costs referred to before which should be £30-45 million in the next year.

So that is how things look going forward. And just to be really clear in terms of cash. What we are doing in terms of setting our £2.7 billion target over the next five years is effectively a normal target of somewhere between £400-500 million of cashflow off the underlying operating businesses without the benefit of management actions. And clearly we are working hard to accelerate further and clearly beyond 2011 we expect to be able to generate more value by acceleration of cashflow.

So on top of the regular cashflows we also have £150 million per annum of scheduled debt amortisation and importantly we set out here, the target we set ourselves to pay down 10% of our debt as soon as is prudent. And that should allow more flexibility in terms of dividend payments thereafter.

So that is cash. Now I would like to spend just a little bit of time talking about management actions which we have talked about previously and this is how we add value both to our base embedded value and also in terms of generating further cashflows. And I will take a little bit of time on this.

First on the embedded value component, the first box. We drive value really in four key boxes. First is about fund structuring. Fund structuring synergies. And we had 15 life companies, we brought that down to 8 life companies. We want to move further by reducing the number of life companies that we have in the Group. That reduces cost, allows us to use tax attributes in one company that can be offset in an enlarged company against tax attributes in another. By bringing the companies together we typically are able to reduce capital by enjoying greater diversification of risks within the enlarged business and that obviously goes through to the cost of capital.

Secondly we look at managing the backbook. And we focus exclusively on the backbook. Now that is a really important part of our business model. We are not distracted by new business. We are doing a line by line review of our balance sheet. So for example in 2009, we spend a lot of time in terms of cleaning up annuitant records, correctly identifying those policies on which payment should be made. Also, for example, we found we were paying claims out but deficiencies in our systems meant that those claims that we were paying were not being recorded properly. So we have gone through again on a line by line basis, ensured that those affective claims are being shown as reducing liabilities and effectively that therefore is releasing profit and cash.

And then tax optimisation. We talked about this a little bit before. Effectively a lot of the funds that were closed and that were sold was because they were making losses under previous ownership. And we have stewarded very carefully those losses to ensure that we actually get tax deductibility for them in this enlarged business. And the case in point is there is National Provident Life where AMP put £650 million of capital support, shareholder support back in 2000, that has been used in terms of enhancing payments to policy holders. But in 2009 we monetised part of that tax deductable loss at £25 million. And we believe there are several further opportunities to come which deliver significant value to the embedded value. And finally outsourcer management, here by proper management of our outsource providers, we can reduce the cost base in our service companies and also that flows through in terms of a benefit onto our life companies.

Now none of this is new. We have been adding value in this way since 2005 when the original Pearl businesses were put together. And this is repeatable. These are items that we see over and over again.

So that was EV, turning to cash quickly. We have the same four areas of value that apply. But in 2009 in terms of how we have accelerated cash, two main areas, fund restructuring. We have mentioned before that we combined Scottish Mutual and Scottish Provident together with Phoenix Life Limited. The diversification benefits plus the synergies arising, allowed £150 million of release. And secondly, key legacy issues were resolved in 2009 allowing required capital to be released in relation to some historic derivative positions and the pricing of those derivative positions. We reached a settlement with various parties allowing reserves of £160 million to be released that were held against that issue.

Looking forward to 2010, we set ourselves a couple of targets. We set ourselves a target of £300 million of embedded value. We have delivered £155 million and we feel we are on target for the further £145 million. And then in terms of cash, we set ourselves a target of accelerating cash of £500 million by the end of 2010, a further 225 to go in 2010 and again we believe we are on track to do that.

So that was management actions. I will just move now briefly onto capital. Although our life businesses are run on a risk based capital basis, i.e. ensuring that the underlying life companies can withstand a 1 in 200 year event, the most meaningful measure of Group capital remains the IGD, That is the measure that the FSA look at, and therefore that is important for us. And our IGD capital has increased by £500 million on that basis. And here we just include the 'with profits' business capital of £2.7 billion, effectively showing a £1.2 billion coverage being 132% of our capital requirement. If we took out the 'with profits' component effectively of £2.7 billion, then our shareholder capital would reflect over 200% of our capital requirements.

I will move now just quickly onto IFRS. Today we have released audited IFRS accounts. Suffice to say, no surprises in there. It has been arduous in terms of a lot of work to do, but a straight forward process in terms of moving from UK GAAP to IFRS, as we said we would. And I guess the highlights are that the IFRS numbers for Asset Management and the Service Companies are pretty straightforward. They are income less expenses business. For the life companies it is somewhat more complex, but effectively those profits represent emerging margins. Non economic experience coming through. And then returns on the shareholder capital that we hold.

And it is really important in terms of the closed life book model that the cash will normally be greater than our IFRS profits. Effectively our net assets are also being released over time. And that is not reflected in the IFRS profit numbers. But as the capital is released, the effect of that comes through into cash and supplements our IFRS profits.

And in terms of the detail. The IFRS accounts released today set out the various sources of profits. Here reflecting the four month period post acquisition and they are broken down into the various buckets. Of the one ninth share of bonuses that we get from the 'with profits' fund. The profits that come through as the 'with profit' funds which lean on shareholder capital, where their capital position improves so that excess comes out back to shareholders. Profits on our unit linked and annuity business, returns on our shareholder capital, and then we have our management services and asset management returns. And this is how we will seek to report the numbers going forward. Having said that, we still believe that embedded value is the better way to look at this business. Effectively embedded value being discounted, instead of discounted cashflows, we think we are a cash business and therefore that is what I will focus a little bit more on now.

So we present our MCEV for the first time, aligning closely with the CFO forum, although it is important to say that there are two or three differences from the pure CFO forum principles. We have talked about these before. Effectively now we are taking out our asset management business and our service company. We use a gilt's plus 10 basis rather than swaps in terms of discounting. And also we don't allow for non hedgeable risks and that is a very deliberate action reflecting our closed business nature. So where we are not taking on new risks, where we have emphasis on closing down the legacy issues in the business, the focus on the backbook, where we look to pass as much of that operational risk as possible to our outsources.

So what has actually happened to our embedded value in the period? Now worth just pausing for a moment and looking at that starting position of a billion. What does that mean that starting position of a billion? Well effectively that is the combination of the Liberty cash, the cash shell, that bought the Pearl businesses and effectively the Pearl businesses net of the debt. Over £3 billion of debt that the Pearl business had at the beginning of the year. So that is all reflected in that billion.

And it has grown over the period from £1 billion to £1.8 billion, reflecting really two halves. First of all bank debt restructuring which is in a bit more detail here. And then the more normal operating result which I will go on and say a little bit more in a moment. But just taking the bank debt restructuring, this has added £400 million all told in terms of taking our opening position and adjusting for that, to £1.4 billion. So that is reflecting the write downs that we negotiated with Royal London and our banking syndicates, less the tax effect of that, because previously we would have got tax relief on that debt and the associated interest flows. So that is an offset. Less deal costs that were incurred in the overall transaction. We did actually also have some further contributions in as part of the reorganisation from Sun Capital and TDR. Against that some of the shareholders in the original cash shell took their money out at the point of consolidation which they are entitled to do. And that saw £41 million leave the business. So that effectively moves us as I say from £1 billion to £1.4 billion. And then we have our operating result of £382 million.

So let me pick up a few of the key points from that bridge which shows us how we got from the £1.4 to the end position of £1.8 billion net of debt excluding asset management of the service company, the £1.8 billion MCEV.

Well the big number there is obviously market movements, the impact of narrowing bond spreads, equities flowing through into our embedded value. However we also reflect there the impact of management actions. Previously I talked about the embedded value impact of what we had done in 2009 and that was within the £258 million. Against that we had some negatives. Probably the key negatives are effectively the cash out the door, as we actually settled interest and financing costs with the bank syndicates and so forth. And the other important one, the £169 million, just to the right is reflecting our positioning on the Tier 1 bond and you may recall that within our MCEV we carried the £500 million of Tier 1 bonds at their market value. And in the period that moves from 20 odd p to over 50p to the Tier 1 bonds, so reflecting an adverse change as the value of that liability effectively increased in the period. So overall a strong performance as we end the year at £1.8 billion.

I would just like to say a few words on Ignis. This slide sets out the key metrics reflecting stable revenue at £111 million, really representing a very secure fee stream from the life companies and it is important to remember that within the MCEV of the life companies we have effectively taken out these fees, we have reserved for those in looking at our market embedded value. And this is the other side of it in terms of the life fund revenue coming into Ignis. And Ignis has really been involved with focusing on bringing its two businesses together and branding it under the Ignis brand in 2009, reflecting the potential for further cost synergies in 2010. As Jonathan mentioned before, also focused on sustaining that strong life company performance that we have seen in 2009 and grow further the third party funds under management.

And I will just say a little bit about how the AuM of Ignis is developed in the period. It has been pretty stable. Clearly we have had life company outflows as we would expect as the book runs off. So the assets that Ignis manages reduces. It has been compensated in large part by market movements. But it is also important just to reflect on the performance in terms of inflows and net inflows. The net inflows into the business from third party business is £400 million which given the conditions last year we think is a pretty good result.

So those are the key metrics that we wanted to bring out today. Just by way of summary before passing back to Jonathan. To repeat the 716 of cash, very strong, ahead of target. MCEV growth to £1.8 billion in the period, excluding asset management in the service company. A very strong IFRS operating profit for the first period of £457 million. Our IGD capital has increased to £1.2 billion and as I say, we are confident that we will remain on track to achieve those targets that we have set ourselves for 2010.

And with that I will pass you back to Jonathan.

Jonathan Moss

So I think to draw out the points that we make. Simple business model where we clearly understand the key value drivers and the process that we go through is repeatable. So what it is that we have done for the Pearl businesses that we are currently doing for the Resolution businesses, we believe we could transport through to any further acquisitions that we do.

So the first thing to do is to acquire businesses and just to emphasise as we have said, we are the largest consolidator in the sector and we believe that we are well placed to look at acquisitions going forward, not a 2010 activity, but clearly there are a lot of other issues to focus on in terms of extracting value from the existing business that we have and moving towards our premium listing, but certainly for the future.

Having acquired the business, derisking the balance sheets. So financial management. Get in, understand fully all of the risks that there are within the business, and the extent that we are taking unrewarded risk. Eliminate that risk to the extent that we are only taking risks because we believe we are adequately rewarded. Making sure that we hold enough capital against those risks and that the risk reward, trade off is appropriate and beneficial to both policy holders and to shareholders.

Financial management in the life companies, operational management within the service company. Getting some benefit out of the fact that we have got £60 billion of assets under management, that we have got this large number of life companies.

Looking to both ensure that we are efficient in the resources that we retain but also in ensuring that when we enter outsource relationships that we ensure that those relationships are solid, they are beneficial to us, that everybody understands the risk transfer that has been done and that will allow us to reduce operational risk capital and also ensure that we are working with stable partners who are going to be there for the long term.

Similar really in asset management. Seek to grow and benefit from the franchise that we have got. In the case of Ignis, that means developing the third party franchise, but also ensuring that we have clean relationships with the life companies that are as simple as they can, as transparent as they can be in order that we maximise the value from those relationships.

And the result of doing all of those things, it is that that will deliver cash. So financial synergies from fund mergers, increased capital release because we understand the risks that we are taking and the profits emerging from the business.

All of that is quite transparent, because there is no new business strains to be taken account of. It is simply a case of understanding the locked box which represents the businesses that we own today.

As for 2009, we set out here what it is that we intend to do during the course of 2010. So there will be further fund mergers. Phoenix and London, now that that business has gone through its compromise scheme is better capitalised and in a position where it can be put together with Phoenix Life Limited. So that is what we intend to do during 2010. Similarly London Life we intend to move under Pearl Assurance. So all the time we are looking to simplify our business in order to better understand how cash is going to emerge from it.

In the same way that we have as of last week, formally closed down our Glasgow Life Company office, we are doing work to similarly transfer all the work from Peterborough to Birmingham during 2011.

As I mentioned earlier, we are doing a lot of work with our outsourcers to ensure that the relationships we have are robust and providing value to us as a large procurer of those services. We will be talking further about that during the course of the year.

As for every insurer in the sector, obviously we are aware that Solvency 2 is coming, it is going to require a significant amount of work from us to ensure that we can meet the requirements of Solvency 2. That really is logistical. In terms of the impact of Solvency 2, clearly it is not possible to be definitive at the moment, but one of the things that I would emphasise is that in running these companies, we seek to be in a position where we don't just sit here and meet the current ICA regime, but we have capital policies which define an additional buffer over and above the regulatory requirement. I would be hopeful that that additional buffer gives us some protection against any increase in capital requirements resulting from Solvency 2.

Within Ignis, as I say, we will seek to continue to deliver investment performance to the life companies and there has already been some improvements within the investment capability and in particular within fixed interest. We are rationalising the relationship with the life companies, moving away from 300 segregated mandates to about 30 collective vehicles, so that the managers can concentrate on managing that smaller number of pools of assets. As a result of that, we will refresh the investment management experience between the life companies and the investment manager.

We will continue to seek to grow the third party franchise. Last year as Simon illustrated, there was £400 million of net cash inflow into Ignis from third parties and we will seek to build on that this year.

Corporately, although we have made a large number of steps, there are a few steps left to undertake. We will seek to continue to simplify our capital structure. Having done that, that will enable us to achieve a premium listing in London which we are looking to do in the first half of this year. Having done all of those things on the equity side, we can then begin to look forward I think to beginning discussions with our lending banks with a view to simplifying those arrangements and of course looking to make the necessary reductions in debts that will free up our dividend constraints as they exist today,

So in summary. Underlying operating businesses, a pretty strong operating performance during 2009. We have beaten our targets both for cashflow, embedded value and continue to see a strengthening of the capital position. All of that means we are well positioned for 2010 and beyond as the market leader in the closed fund sector with a restructured asset management business. Continue to deliver value from Resolution and Phoenix and we have given an indication of what that combination of the old Resolution and Pearl books will deliver. And having completed that we can then look forward to expanding the model. So all in all we are very much looking forward to 2010 and hope that that will be as successful as 2009 has been.

On that point we will move to Q&A. If you could direct your questions to me, I will point them in the right direction.

Question and Answer Session

<u>Question 1 : Jon Hocking, Morgan Stanley</u>
Morning. It's Jon Hocking from Morgan Stanley. I have got four questions I am afraid. Just starting with the first one. Can you talk a little bit about the potential impact of Solvency 2 on tax for life companies. The consultation paper came out last week, whether you have had any thoughts? Secondly, the fund mergers you mentioned at the end. Is that programmed to deliver the balance of the £300 million or is there some incremental uplift over and above the £300 million we should be thinking about? Third question, you mentioned the pay down of the 10% of the bank debt, what are the sensitivities around that? Should we be thinking about the Dividend Cap hitting for 2010, 2011, what are the levers there? And just finally, on the slide you put up for the IFRS, you gave a sort of split of the IFRS life profit by sort of non profit, with profit etc. Some of those things the with profit is a bonus transfer, the four months. How shall we think about annualising those numbers? Is that a representative split if we are looking at forecasting for 2010?

Answer : Jonathan Moss
Okay, I will pick up a couple of those and then the balance I will pass over to Simon. So I think the only thing I would say about the with profits position is clearly bonuses get set effectively in arrears. Would have been set at the beginning of 2009 and reflect the 2010 asset performance, similarly at the half year 2009. As they are set for 2010 they will take much more account of the recovery market conditions through 2009. So I think they are lower rather than higher in terms of trend for 2009.

Further question
[Too quiet – not possible to hear]

Further answer : Jonathan Moss
Well terminal bonuses. Most of the bonuses that get paid are terminal bonuses rather than annual bonuses, so they are paid on claims. The 10% of the bank debt, clearly we have not yet begun those discussions with the banks so it is difficult to give guidance. What I would say is that, as Simon as illustrated, we should have less non recurring items in terms of things to absorb cash during 2010 and that should deliver excess cash which will enable us to organically generate the necessary 10% reduction and that will facilitate the discussions with the banks, the outcome of those difficult to predict at this stage. Phoenix and London funds merger, moving London Life and so forth, those are essentially the management actions or components of what will deliver the management actions. Is there more to come? I think that depends on our ability ultimately to take the old ex-Pearl businesses and the ex-Resolution businesses and bring them together within Phoenix more formally and obviously in the short term there are constraints on our ability to do that. So the answer is I hope there would be more to come. We have not given any guidance on what the value of that might be because there are things which would stop us doing it.

The Solvency 2 impact and tax and anything else you want to say about IFRS profits?

Further Answer: Simon

Okay, well I will say a little bit about tax first. The key thing in terms of the consultation document is that actually it doesn't change the basis of taxation of the life companies in terms of there being shareholder profits. And effectively those shareholder profits are driven by the release of reserves for us over time, which effectively fall into taxable profits. So at the moment we have allowance for that tax that will effectively arrive as those reserves release and effectively we have the tax release both from tax losses we have taken forward, plus future debt interest. So effectively it does not remove or reduce the overall capacity to effectively relieve taxable profits. So we don't see that as a threat at this stage.

In terms of IFRS, we didn't do the specific split for the 12 month proforma, however I think the relativities between the different components of profits for the four months remains effectively true going forward, in terms of the relative contributions to profits, we think the 12 months number is more representative in terms of the profit number rather than the four months times by three. And obviously that is because of market improvements certainly in the last quarter of the year which clearly helped the post acquisition period that we have shown today.

<u>Question 2 : Oliver Steel, Deutsche Bank</u>

Oliver Steel at Deutsche Bank. Three questions, hopefully the number we each ask will reduce as we go on! First of all looking at the £2.7 billion of cash and capital that you are looking to release over the next five years and then it drops to £1.6 billion. They are remarkably different numbers relative to the split of the VIF maturity profile which I think is 33-34% in the first five years going down to about 27 or whatever it is. So just wondering if you could talk a bit more about the split between capital release and ongoing cash generation? That is question one. Question two is, you have beaten your targets so far quite comprehensively. So I am just wondering how we should look at this £2.7 billion, is it a best estimate? Is it a target which you expect to beat comprehensively or is it an aspiration as one of your competitors occasionally talks of? And the final question, is looking at the IGD sensitivity, which intriguingly I see the IGD solvency ratio goes up on pretty much every negative market move that you throw at it. And I guess that is something to do with the WIPIC, but I wonder if you could just take us through the dynamics of that?

Answer : Simon

Shall I take the £2.7 billion? The £2.7 billion, you have to reflect that there is £300 million of management actions in there. And effectively our business model, a lot of that is trying to actually accelerate cashflows forward. So effectively we are bringing cashflows forward into the first five years through those management actions, albeit that those only relate to 2010 and 2011. So arguably you could say £2.7 billion minus £300 million takes you to £2.4 billion. If you push that into the years 6-10 and effectively you are comparing £2.4 versus £1.9 billion. Now clearly there is also a run off of the book as well over time.

In terms of the 33-34% point, we don't actually have it turning into cash, only the PVFP. We have also got the net assets coming through. So we think perhaps a good way of looking at that is actually looking at that in the first five years, that 33-34%, applying that across both the net assets and the PVFP to effectively show the run off that you have got.

In terms of bridging from an EV, a market consistent EV basis through to cash flows, you have also got to bring in asset management, and service company. You have got to bring in actually the discount because effectively in the MCEV you have got the discounted cashflows so you have got to unwind the discount. There is also some further tax sitting outside of the life companies as applies to the asset management businesses. And also in our cashflows we reflect a small real world uplift in terms of the returns as well. So that effectively takes you from your EV basis through to your cashflow basis.

In terms of the IGD sensitivities, you are absolutely right. It is basically the reflection of the reduction in the WIPIC. So effectively it is the with profits capital component of the IGD is reducing. The reason why our IGD in terms of the shareholder component is relatively insensitive is because it is actually invested primarily in cash and gilts. So actually you are not seeing a significant change in that.

Further Answer : Jonathan

In terms of targets, the £2.7 billion as Simon mentioned, includes management actions. Certainly we have got a good handle on management actions for 2010 which is the delivery of the residual components of the 300 and 500 we have previously mentioned. We have got modest amounts in there for the subsequent years as well. I guess the components in the subsequent years are less well formed in terms of, we have not yet defined the management actions that will be taken. But we are fundamentally of the view that they are there. But that is a relatively small component. The cashflows ex-management actions are very much best estimate.

<u>Question 3 : Tuan Thal Longacre Fund Management</u>

Two questions please. Could you please say a few words as to your process where you are trying to resolve the dispute with the Tier 1 note holders. Particularly, what is the status of the agreement with the banks or approval for the banks and the FSA? And second question has to do with Solvency 2. Can you already quantify how much more or less capital you would need under this new regime?

Answer : Jonathan

Thanks for those questions. Tier 1 process, we have the agreement of the banks to the offer that we are proposing to make to the Tier 1 bond holders. We are expecting imminently the written agreement of the FSA. That will then enable us to put in process the sort of statutory notice period for bond holders that will then lead to a bond holder vote. As I mentioned earlier and we have emphasised the terms of the proposal are now supported by the ad hoc bond holder group. And that bond holder group does represent a significant majority of Tier 1 bond holders.

In terms of quantifying Solvency 2, I think at this stage it is very difficult to do that.

Further answer : Simon

I think it is too early. I think the important point that Jonathan made which is, already we are a risk based capital basis of capital adequacy for our life companies. Over and above that we hold further buffers and effectively we only release cash from the life companies to the extent that there is free cash over and above the buffer amount. And we think the buffer amount of itself represents a very significant cushion to absorb any adverse effects of what actually finally comes out of Solvency 2 to the extent that it is adverse.

<u>Question 4 : Raghu Hariharan, Citigroup</u>

Morning all. Raghu Hariharan from Citi. I just have two questions. The first one was on the cashflows. Can you give us a sense of you know sensitivity of the markets on the cashflow. It is very difficult to forecast the cashflows just based on your reserves, given that you have 6 or 7 funds. And we would like to understand there is a bit 'with profits' fund in there. So I would like to understand what the impact of either equity market movements or spread movements would be on the cashflows? The second one was on the IFRS operating profit, I was wondering whether you could give us a sense of what the LTIR assumptions are, long term investment return assumptions are? Thank you.

Answer : Simon

Okay, just in terms of the sensitivities, we haven't published any specific sensitivities and at this stage we are not intending to do that, albeit we will obviously think about that going forward. I guess the key point is, and something we have been focused on as we have gone through the year end process, is our going concern processes and also thinking forwards for the listing in terms of working capital and in terms of what we need to sign off in terms of working capital reports. Can we meet all our obligations sort of on a range of sensitivities? And at this stage we are satisfied that we can both in terms of ongoing bank debt amortisation, payments to the pension schemes so on and so forth.

In terms of the operating profits, I think in terms of the detail, I don't have it on the tip of my tongue, in the annual report published today there is quite a lot of detail in terms of those assumptions in terms of investment returns.

Further question

Can I just come back quickly on the cashflows. What proportion of it is capital versus profit I guess? If Solvency 2 does not in effect impact you, which is a big assumption, I was just wondering, in terms of your cashflow, what proportion is capital versus profits? I guess profits would be more sensitive to markets versus capital?

Answer : Simon

Effectively looking at our embedded value, you will see the breakdown in terms of the life companies between future profits and capital. Effectively the net assets. And in essence we know that our run off is pretty stable in terms of policy holders running off. And you will see effectively how that is running off over the period.

<u>Question 5 : Greig Paterson - KBW</u>

Greig Paterson. I will ask four questions. One you will probably say no. What percentage is the buffer over the ICA? That is question one. Second one, you speak about renegotiating outsourcing agreements. My understanding is you only could do that in 2018. I was wondering if you have some leverage over the outsourcing companies that allow them to look over that clause? Third question is just a confirmation. My understanding of the CFO forum is that the asset management profits as they pertain to the life company would be included in the VIF. You are not including them in the VIF. Just confirm it? And the fourth one, and I did mention early on, maybe you could take it off line, but you mentioned an allocated surplus for the shareholders was £710 million. I was wondering if you could give me a policy holder, unallocated surplus amount that is embedded in the liabilities? And if there is any opportunities for further? You obviously done some reattribution, if there is opportunities for further reattribution? I think it was mentioned to me at the start, £2 billion. Can you confirm a number and talk about opportunities there?

Answer : Jonathan
So the percentage buffer over and above the ICA does vary by company. Over time I guess we would look to probably standardise that. The one that has been disclosed in the past is the big £35 billion of our assets and liabilities sitting in Phoenix Life Limited. That is currently sitting at about 30% of the ICA.

Further answer : Simon
I will pick up the outsourcing one. You are absolutely right in terms of there being fixed contracts. Clearly to the extent that if we wanted to move outsourcers or change terms, then that involves a renegotiation of those contracts. Having said that, we think that is open to us and we are exploring possibilities of doing that in a couple of cases.

Further Question
What is your leverage? What is the volume you are bringing?

Answer : Jonathan
Clearly it is important in a stable platform that the outsourcer is performing well and they want to remain in the business. And that they are providing the services that we want to us. So clearly to the extent that there are outsourcers that maybe in the long term do not want to invest and make the transformational changes we want them to make, then that provides the opportunity to renegotiate.

On the CFO Forum point you raise, absolutely right. We have taken all of the VIF out, effectively to try and make it as clean as possible. So absolutely clear that we are only bringing the covered business, i.e., the life companies, less the corporate debt into the MCEV number. And effectively that is separate. I would say we do bring into the £1.8 billion the net assets of the service company and asset management company which I think together are about £90 million within that total MCEV. On the unallocated surplus I will have to come back to you on that.

Further question
Any reattribution opportunities on that?

Answer : Jonathan
I don't foresee any reattribution opportunities

Further question
Have you already done the the numbers?

Further answer : Jonathan
Well the ones that were done, were done in excess of a decade ago. I think given that the funds are now closed the expectation is that the estates will be distributed to policy holders.

Question 7 : Duncan Russell, JP Morgan, Cazenove

Just one question, Duncan Russell from JP Morgan, Cazenove. Can you talk about the M&A landscape. I know it is obviously an ambitious question and early days, given the amount of debt and your ambition to pay that down. But are you an active player would you say in the M&A landscape in the market? And do you still get involved in discussions and what sort of timeline do you think you could start considering M&A again?

Answer : Jonthan

I guess we are aspirationally active rather than active today. Clearly we believe we have a good and powerful platform and as Ron indicated, we see ourselves as the natural home for closed life run off businesses. As I said earlier there is much to be done I think during 2010 both in terms of continuing to simplify the capital structure and extracting value from the businesses that we have got. I think also from a practical point of view, until we feel that we are better rated in terms of the share price relative to EV, it makes it more difficult to do transactions. I think for all of those reasons, as I said earlier, we would see ourselves as more likely to get more involved into next year and beyond. Having said that, clearly we would like to feel that all potential vendors would know that we are about and that deals wouldn't simply pass us by. I think the opportunities will be there into next year and beyond. I don't think we are going to particularly miss out simply because we are continuing to do work internally for the moment.

Further Question

There is no real market at the moment

Answer :

I don't think there is a huge amount of activity going on there.

Question 8 : Jon Hocking, Morgan Stanley

Can I just ask about the contingent shares. Is the exchange offers we saw for the warrants, is that a good model for what we should expect with the contingent shares? And do you have any comment on time line there?

Answer : Jonathan

Okay, clearly the contingent shares is something we need to resolve prior to getting the London listing, so it is something which is being worked on. I actually don't see it as being, as compared to some of the activities that we have to undertake in terms of logistically, it takes a lot longer, to validate, verify a prospectus than it does to have a negotiation on the contingent shares. So I don't feel that this is going to be the thing that holds up the listing. I think it is a matter of coming to terms which are acceptable to all the parties and I would say that we are working on that. Beyond that I probably wouldn't like to say any more given that it is a live discussion.

Further answer: Ron Sandler

Clearly we can't give any guidance at the moment, but as soon as we are able to we will disclose where we are in that process.

Jonathan Moss

Given the time we might move to see if there are any questions on the phone if we may? We have no questions on the phone. Are there any on the web? No questions on the web either.

So if there are no further questions in the room thank you very much everybody for coming and look forward to talking to you all again soon. Thank you very much.

End