PHOENIX GROUP

Phoenix Group Holdings: Q1 2013 Interim Management Statement 3 May 2013

Phoenix Group Holdings announces cash generation of £410 million in the three months to 31 March 2013. The Group remains on track to meet all of its financial targets.

Financial and operational highlights in the three months to 31 March 2013

- Capital raising and debt reterming completed, including £450 million debt prepayment, reducing gearing to 48%, proforma at FY12.

- £410 million of cash generation[1] in the 3 months to 31 March 2013 (3 months to 31 March 2012: £6 million). Total Holding Company cash[2] of £1,199 million at 31 March 2013 (FY12: £1,066 million).

- Estimated IGD[3] surplus of £1.2 billion at 31 March 2013 reflecting the impact of the capital raising and debt reterming (FY12: £1.4 billion).

- Estimated PLHL ICA[3] surplus of £0.8 billion at 31 March 2013 reflecting the impact of the capital raising and debt reterming (FY12: £1.0 billion).

- Estimated Phoenix Life free surplus, which represents excess capital over the minimum requirements and the life companies' capital policies of £138 million at 31 March 2013 following distribution of cash to Holding Companies (FY12: £514 million).

- £0.2 billion of net third party asset inflows (excluding liquidity funds and Guardian assets) generated by Ignis in the 3 months to 31 March 2013 (3 months to 31 March 2012: £0.1 billion). Group Assets Under Management of £69.3 billion at 31 March 2013 (FY12: £68.6 billion).

- On track to meet all financial targets, comprising
  - operating companies' cash generation of £650 – £750 million in 2013, and £3.5 billion between 2011 and 2016,
  - cumulative incremental MCEV enhancements of £400 million in the period from 2011 – 2014 and
  - gearing reduced to 40% by end of 2016

Clive Bannister, Group Chief Executive, commented:

"The first quarter has seen us further demonstrate our consistent financial performance and I am pleased to report a strong set of results, showing £410 million of cash generation and robust group solvency. We are on track to meet all of our financial targets for 2013 and beyond. We remain confident in our ability to continue to generate cash and enhance shareholder value. The completion of the capital raising and debt reterming during the quarter has delivered capital stability and we are well positioned for the future."

Financial overview

Cash generation

Holding Companies'[2] cash flows	3 months to 31 Mar 2013 £m	3 months to 31 Mar 2012 £m	FY 2012 £m
Cash and cash equivalents at 1 January	1,066	837	837
Cash receipts			
Cash receipts from Phoenix Life	409	3	661
Cash receipts from Ignis Asset Management	1	3	29
Total cash receipts	**410**	**6**	**690**
Operating expenses	(8)	(4)	(37)
Pension scheme contributions	(8)	(5)	(50)
Debt interest	(22)	(17)	(115)
Debt repayment	(450)	-	(165)
Proceeds of capital raising net of fees	211	-	-
Other non-recurring cash outflows	-	(2)	(21)
Total uses of cash	**(277)**	**28**	**(461)**
Cash and cash equivalents at end of period	**1,199**	**815**	**1,066**

£410 million of cash was distributed to the Holding Companies in the 3 months to 31 March 2013. The strong cash generation in the first quarter was driven largely by the free surplus within the life companies, which benefitted from significant management actions in 2012, including the annuity transfer transaction.

Cash generation tends not to be evenly spread throughout the year as it depends on the level of free surplus within the life companies and the timing of management actions. Cash generation in Q2 is therefore not expected to be at the same level as Q1.

Following the previously announced equity raising and debt reterming, a debt prepayment totalling £450 million was made in February. The prepayment was partly funded from internal cash resources, with the remainder being funded by the proceeds of the equity raising. Following the debt prepayment, the Group's outstanding bank debt reduced to £1.9 billion, representing gearing of 48%, proforma as at FY12.

Capital

Phoenix Life Free Surplus

The Phoenix Life free surplus, which represents excess capital over the minimum requirements and the life companies' capital policies was £138 million at 31 March 2013 (FY12: £514 million). The movement during the period reflects an increase from emerging surplus offset by the distribution of £400 million of cash to the Holding Companies.

IGD

The estimated IGD surplus and IGD headroom reduced by £0.2 billion to £1.2 billion and £0.4 billion, respectively at 31 March 2013 (FY12: £1.4 billion and £0.6 billion), primarily reflecting the impact of the debt prepayment made in February.

PLHL ICA

The estimated PLHL ICA surplus reduced by £0.2 billion to £0.8 billion at 31 March 2013 (FY12: £1.0 billion). As a consequence, the estimated PLHL ICA headroom also reduced to £0.7 billion at 31 March 2013 (FY12: £0.9 million). The movement is primarily due to the debt prepayment made in February.

Ignis

Total Group Assets Under Management were £69.3 billion at 31 March 2013 (FY12: £68.6 billion).

Ignis generated net inflows from third parties (excluding liquidity funds and Guardian assets) of £0.2 billion in the 3 months to 31 March 2013 ((3 months to 31 March 2012: £0.1 billion), driven by strong ARGBF sales in European markets. Due to the cyclical nature of liquidity fund flows, net liquidity outflows totalled £0.7 billion during the quarter (3 months to 31 March 2012: £0.3 billion inflows). However, this outflow reversed during April.

At 31 December 2012, certain assets relating to the annuity transaction were still subject to transitional investment management arrangements. During the quarter, £0.3 billion transferred back to Ignis, with the remainder expected to transfer back to Ignis during the rest of 2013.

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 £410 million of cash in the first quarter, the Group is well on track to meet its cash generation target for the full year of £650 - £750 million, and its long term cash generation target of £3.5 billion between 2011 and 2016.

The Group remains on track to achieve its other financial targets of £400 million of incremental MCEV between 2011 and 2014, and gearing of 40% by 2016.

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

Enquiries

Investors:
Katherine Jones, Head of Investor Relations, Phoenix Group
+44 (0) 20 7489 4879

Media:
Neil Bennett, Maitland
Peter Ogden, Maitland
+ 44 (0) 20 7379 5151

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.

- Financial calendar 2013

Half year 2013 results	22 August 2013
Q3 2013 IMS	25 October 2013

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

- Phoenix Group will be holding an investor day on 16 May. For further information please contact Investor Relations.

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 planned 'ICA+' regime and ultimate transition to the European Union's 'Solvency II' on the Group's capital maintenance requirements; 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.