PHOENIX GROUP

Phoenix Group Holdings
Q1 Interim Management Statement
Monday 17 May 2010

Jonathan Moss
Group Chief Executive

Good afternoon everybody and thanks for joining us. Apologies for having to move the call, but we thought in view of the Prudential announcement that it would be more convenient for you if we shifted to a little bit later in the day. I am Jonathan Moss, Chief Executive of Phoenix Group and I am joined by Jonathan Yates, who as we announced a few weeks ago will be taking over from Simon Smith later in the year as Finance Director.

We will be happy to take your questions in a few minutes, but first I would like to take you through some of the highlights of our First Quarter Interim Management Statement which we put out earlier this morning.

Before I run through the operational performance I would like to talk briefly about the progress the Group has made on our stated corporate objectives. As you will have seen, we have successfully completed discussions with Tier 1 bond holders, virtually 100% of the votes were cast in favour of the agreement of the 83.2% of Tier 1 note holders who voted. All the preparatory work is either done or nearly done and I am very confident that the premium listing will take place, provided that the Board can reach agreement with contingent right holders on the proposals to convert their rights to shares. The proposal would then be put to a shareholder vote at our AGM on 23 June.

Following the Board's completion of the negotiations on these proposals, we would expect to issue a prospectus in early June for our Premium Listing on the LSE to take place by the end of June. And I would also like to remind you that we will not be raising any new capital in connection with Premium Listing.

Running you quickly through our operational highlights, I am pleased to report that the Group has performed strongly in the first quarter and that we are on track to deliver our targets for the year.

Cash is the key performance measures of Phoenix, our cash generation in the first quarter was strong at £270 million. That leaves me confident that we will meet our cashflow targets for the year of £625-725 million of which £400-500 million is recurring and £225 million represents the accelerated cashflow from management actions we are in the process of undertaking. This also puts us in a good position to commence discussions regarding restructuring various terms of our Bank facilities with the Bank Syndicate in the second half of 2010 and into 2011.

Embedded value is also important measure for our business and we expect to meet our target of £145 million of incremental embedded value growth from the management actions that we are undertaking during 2010. Those management actions include transferring the business of Phoenix and London Assurance into Phoenix Life Limited, which is likely to be completed in the final quarter of the year. The restructuring of certain of our outsource relationships which is anticipated to complete in the second half of 2010 and the utilisation of previously unrelieved tax losses within the Group and the revolution of legacy tax and other issues.

IGD Surplus remains robust with an estimated £1.3 billion before dividends paid in respect of 31 March 2010. Phoenix's total assets under management have increased from £67 billion to £69.4

billion due in the main to a £2.9 billion transfer as we brought assets in-house from a third party asset manager.

In addition, our Solvency II Project has been approved by the Board and is well under way. The next major milestone is entering the pre-application process with the FSA for the approval of our internal model. We will do that during the course of July.

So the combination of strong operational performance and the integration plans that we are undertaking at an operational level will allow us to look to the future with confidence. The business is in better shape than ever and our strategy is delivering results.

I would like to hand back to the operator now and we are happy to take your questions.

Question and Answer Session

<u>Question 1 : Oliver Steele, Deutsche Bank</u>

Afternoon everyone. I nearly said morning, but you got delayed a bit this morning I guess. Just one question really which is, I mean is there any way in which we can analyse one quarter's cashflow and sort of compare it to our full year forecast? I mean if I look through the, if we look through the details of the £270 million and then also looking at the uses of cash, which lines sort of are sort of broadly equal between the four quarters? You know are you able to give us any guidance on the rest?

Answer : Jonathan Moss

It is a good and fair question. One of the problems we have, obviously we are required to report quarterly, but very typically the actuarial valuation of the assets and liabilities of the underlying life companies is only done twice a year. So there will be some lumpiness in the cashflow, the cash that bring our in our respective 31/12 is reflected in the Q1 IMS. Similarly the Q3 IMS will reflect the cashflows brought out in the second half of the year. Really that is why we made the point that we would expect that we are on track for both our £400-500 million a year of recurring cashflow and the £225 of management action. The £270 million does not include any allowance for management actions, but it is certainly in excess of a normal quarter's worth because of the things I have described.

Further question

Yeah. And what about the cash outflows? I mean I can see that the operating expenses are sort of roughly a quarter or a bit under what I was expecting for a quarter's worth of operating costs. But debt interest. I mean that seems quite low, but again is that just because it is lumpy?

Further answer : Jonathan Moss

It is because it is lumpy. So the £100 million we described before as being a full year's interest cost at current rates is still what we believe the cost is going to be.

Oliver Steele

Alright. Thank you very much.

<u>Question 2 : Doug Rothschild, Scoggin Capital</u>

Good afternoon. Two questions. First if you could comment on the departure of the CFO and maybe expand a little bit as to the reasons for his departure? And then the second is if you can describe the conversations with the contingent rights holders and maybe what kind of settlement you guys are thinking?

Answer : Jonathan Moss
Okay, thanks for that. I will talk briefly first about Simon. I mean Simon and the change we are making is really a reflection of what was clearly very difficult and stressful both for the organisation and for the individuals involved personally over the course of the last year. We have come through that now and taken the view that for Simon, it is a good time to make a change after 12 years with the organisation, and particularly I think having got through last year and moved the business on to the sort of next phase of its life. It was a good time for him to go. It certainly is not and should not be taken as any reflection of any concerns that Simon has about the strength of the business. And obviously we are delighted to have had Jonathan to come on board and move us onto the next phase. And perhaps I will ask Jonathan whether he wants to say anything about what he sees as being the opportunity here.

Jonathan Yates

Thank you Jonathan. I think the opportunity is a tremendous one for the Group. I think the insurance industry, the life insurance industry, is certainly facing a far greater consolidation potentially than we have actually seen in the past, as a lot of the large remaining companies start to shake out the legacy business and their closed funds, in particular the 'with profits' funds as Jonathan has mentioned before. So I think it is a tremendous opportunity for the company to go forward and fulfil its reason for existing.

Further Answer : Jonathan
Thanks Jonathan. And to contingent note holders. As you say, discussions are ongoing. We haven't unfortunately brought to you any details of the transaction because we are not yet in the position that we can. I believe we are very close, but we didn't get done in time to be able to make an announcement today. So we will continue set up negotiations. What we have said in the IMS today is that we will be bringing the issue to shareholders as part of the AGM in order that it is not a decision which is solely being made by the Board. Obviously we will be putting forward what we believe to be good and sensible proposals, which I can't give you any details of today, but which we will continue to work towards. But one would hope we would get to the point where on balance we feel that it is in the interests of shareholders to pursue the Listing and to make an exchange on the contingent rights to help facilitate that.

Doug Rothschild
Okay thank you.

Operator

There are no more calls

Jonathan Moss

Okay, thank you very much operator. Thank you everybody for joining the call. If there are any further questions that you would like to have, then please do get in contact with Loraine in the normal way and we would be happy to answer those questions.

Thank you very much.

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