Old Mutual plc

International Financial Reporting Standards ("IFRS")

Analyst and Investor Briefing:

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Old Mutual plc

Thank you very much and welcome everybody. It's nice to be back in Jo'burg once again. I'm going to get used to doing presentations down here I think. I have to say, this time round - rather than February - it's probably as warm in the UK as it is down here.

As you know, today is being webcast as well as on the telephone and here with you, so we do need to make sure that when there are questions at the end, if you have any questions, that you have a microphone so that people can hear what is going on.

You will have seen that we put out the CESR statement today, a fairly detailed statement - a sign of things to come. I think it's only going to be companies like Sappi that benefit from IAS with the fact that the accounts are going to get so detailed now and there is going to be so much information going through that it's going to be quite a challenge.

The CESR statement that you'll have seen has the 2004 results, P&L and balance sheet restated onto IFRS and also the interims as well. This has been quite a fraught exercise, it's lasted us what, two and a half years. It's cost us

more money than I would like to admit. You may not have seen, in the UK there were some absolutely enormous numbers bandied around our competitors of what they'd spent on changing in accounting. Fortunately for us, it hasn't been quite so large. But it has been a fraught process, so what we've done, you'll see in the CESR statement it is just in Sterling (£), it is not in Rand (R), but the presentation you've got in front of you, does give you the Rand numbers as well as Sterling with Rand in the appendix. So that hopefully you'll then be able to tie back without too much detail to the Rand numbers which of course I know you prefer going through.

There is a huge amount of work that's been done and there is a huge amount of work still left to be done. As you know the insurance standard on IFRS is still a long way away from being finalised so we're in a sort of a hybrid situation at the moment for this year and probably for the next couple of years. We also have the difference on IAS 39 where we have still got this European [carve-out/caveat]. I think we are all hopeful that things will change before we get to the year-end results and there are one or two other standards that we think may well change before we actually get to the end of this year. What we have done is fairly full work and therefore we are very happy to come to you today to take you through these statements and you should have the added comfort as well, that this work has been reviewed by KPMG and we have a sign-off from KPMG that these numbers are firm. I am not saying that they won't change for the year-end,

because if the standards move before we get to the true and fair view on at the end of February then there will be adjustments, but we have gone through that work.

Our Agenda just today, is I'm going to take you through just a high level overview of the key changes and then Katie Murray is going to come up and take you through the detailed technical aspects. We're not discussing strategy so it is pretty well a technical presentation today. At the end I'll come back with some closing remarks and also take you through the IFRS impact of the BEE announcement that we made on the 19th April.

Old Mutual does support this move to IFRS. It may cost us a lot of money, it may be fraught, but the idea and the aim at the end of the day of getting financial statements that are the same through out the world we think is something that we support. I like the way, as well that the key financial statements where there may be differences with US GAAP there have been combined working parties so that we hope in due course then the Americans will also align US GAAP into IFRS and then you really do have a transparent world.

We are ready for IFRS, I suppose I've got my fingers slightly crossed when I say that. We've done all the work, our management accounts now are working on IFRS basis. We are ironing out the difficulties that we've got. Certainly we

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haven't yet bedded down our processes and I can tell you I don't particularly look forward to the interim results because I know there's going to be huge time pressure to try and pull everything together. But we are ready for IFRS and we are now adopting it to manage the business.

You will see in a moment that there is a positive impact on operating profit. A slightly dilutionary impact on operating earnings per share, and overall equity remains broadly unchanged. We will however, continue to use return on equity and embedded value as the primary performance measures of our businesses. And also, somewhat surprising to some people, we will continue to have a smooth and an unsmooth profit basis. We thought at one stage that that wouldn't take place but as you know our accounts are driven somewhat by the Association of British Insurers, the statement of recommended practice, and that says that we should carry on smoothing our return. Well what we will be doing is we will have a good look between now and the interims at the methodology that we've used and at the rates that we're using and so therefore they may, or you should expect that there may be some changes at the half year.

Accounting for BEE is impacted, and as I said I will go through that, and I've also said that the December 2004 results have been audited. So what are the key impacts? First of all let me hone you to that second line the 'Adjusted operating earnings per share (EPS)' - you can see, compared with last year's results was

15.3p, that reduces by 0.5p just over 3% to 14.8p – so a small dilution, 3.3% in adjusted operating earnings per share.

There is a slight difference if I go upwards to the adjusted operating profit which increases by 5.8%. There are two or three drivers coming through, but the main driver, the main impact of where you get this movement between operating profit and EPS, is we have adopt a new treatment in the life business for policyholder tax. And what we have to do now is gross up our operating profit and show the tax in the tax line, and therefore that has a rather odd impact of grossing up our operating profit which increases by 5.8%. The reason for the 3.3 dilution largely it's the fair valuing of financial instruments and then the revised accounting per share based payments. Basic EPS that increases by 2.2p and again there is one factor that really has the biggest impact, which of course is goodwill, whereas in the past we've always been amortising goodwill, and now we are no longer able to do that but you have to do annual impairments and again, that impact of adding that back in 2004 has that impact of taking it up 2.2p.

Shareholder's equity - as I said, very little movement - which overall means that the return on average equity reduces slightly form 19.1% to 18.6%. Some things however, don't change. The calculation of the value of new business for US Life and Old Mutual South Africa – that isn't affected by IFRS. Also, the assets under management for the US, OMSA and OMFS – they don't change at all. IFRS

positively impacts the underwriting ratio for Mutual and Federal. UK accounting had that quirk of having to set up an equalisation provision and that now has been eliminated under IFRS, so fortunately there'll be no difference between the result that M&F show when they release their results and the Group does, because it was that equalisation provision which had the main impact. And finally, no great change to the Nedcor margin.

What is driving the change? We've got five standards that have a significant impact, and five standards effectively where there is little impact. IFRS 4 which is the insurance accounting standard, fairly complicated as Katie will take us through, you have to look at what is the definition of an insurance contract. If it's an insurance contract, until the time when Phase II comes in, we'll continue to adopt the accounting that we've been using in South Africa and the USFSV and the US GAAP. If it's not deemed to be insurance accounting, then we have to adopt IAS 39.

Revenue recognition - that's IAS 18 - that results in a slight deferral of some fees to future periods. Financial Instruments – IAS 32 & 39 – these are the ones that are most complicated and give us the most volatility. IFRS 2, which you are aware about, is the share-based payments has an impact and of course, goodwill because we have significant goodwill on our balance sheet and that of course impacts us as well. I think on the ones that don't have a significant impact, is

post-retirement benefits, and certainly in Europe, when you've been looking at people who have been putting out their IFRS adjustments, a very significant impact on opening equity have been pension schemes. In Europe, as you know, most of the funds are in deficit and therefore there has been a big charge. For Old Mutual, most of our schemes are a direct contribution, defined contribution even – I'll get the right word – but those schemes that are a defined benefit, then they are in a surplus and therefore it's not an issue for us. Katie will take you through again the other ones and the impact of those while she goes through her talk.

I've just put up two slides, I'm not going to go through these in any great detail – again Katie will take us through this in a fair amount of detail, she'll take us through each of these standards and the impact – but just to highlight really, when we're looking at equity, what are the statements that cause the most volatility, the most change, it's IFRS 4 insurance contracts, the financial instruments, goodwill and dividends where of course where you can't accrue for dividends. If you then move on to the adjusted operating profit, as I was saying earlier, most of these ones net out. The big positive that has the impact of moving the operating profit is the reclassification of policyholder funds tax.

If you look at the basic earnings per share, as I've just said, there are two items coming through here - IAS 3, Goodwill where we're no longer amortising; and the

other item here is IAS 39 financial instruments. We have not adopted plc. Hedge accounting at the head office. That is going to be adopted in 2005, and so therefore any fair valuing impact goes through the profit and loss account in 2004, of course when we adopt hedge accounting, then of course it will go through the balance sheet and equity in the future. Now to take you through the technical aspects in detail – over to you Katie.

(00:13:51)

Katie Murray - Head of IFRS Implementation

Thanks very much Julian. Good afternoon gentlemen and ladies. Its lovely down in Johannesburg, I spent a little bit of time here last year and its always a pleasure to come back to you at any time.

As Julian said, I'm going to take you through some of the more technical areas that we have dealt with throughout the project. There are six standards I want to talk about this afternoon. The reason is either that they've had a very big impact, or its something that we've spent a tremendous amount of time working our way through. So these are the six - I'm going to start off with IFRS 4 Insurance Contracts and work my way down to IAS 27 on Consolidation. I'll then go through a couple of small impacts in also talk a little bit about what our financial statements will look like when you see them in March of next year.

So first of all - IFRS 4 Insurance Contracts – and this is very much a question of when is insurance not insurance and in fact an investment contract, and that has been something that we've debated about a lot. When we look at this IFRS 4 – there are four kind of main areas that we think about. Investment contract valuations – so, those things that no longer form part of our IFRS 4 insurance valuation. How we then disclose those investment contracts. There was an opportunity to make some adjustments to the way we did some of our insurance accounting within the US business and also within Mutual and Federal, the elimination of equalisation provisions. I'm going to take you through each of these adjustments one by one, and then you'll see which business unit is driving them as we go.

So when is insurance not insurance? I think the most significant thing that IFRS 4 did was actually to define a global view of what insurance might be and for the bankers sitting in the audience, they all might think how can it be that difficult, but it is something that we have spent a lot of time defining and the key thing is, is that there does need to be an element of insurance risk. And so where we don't have any insurance risk, these are then basically driven by investment risk so they are then IAS 39 products. The type of products you would certainly see in unit trust houses or banks or asset managements and they are then valued on the IAS 39. For those insurance products and also those investment contracts, that had discretionary participating features, there has been minimal change

under IFRS and so as Julian alluded to it will be Phase II of the insurance project that will make those changes.

It's worthwhile just pausing for a moment on this issue of discretionary participating features. These are features that can exist in both insurance and investment contracts and certainly with us when we have a number of investment contracts that have that bonus moving accounts attached to them, you would have expected them to fall straight into the investment contract pool, however, quite early on in the IASB deliberations of IFRS 4 they agreed that this would be something we would save and deal with as part of the Phase II of the implementation.

So when we look at the classification in terms of the pie chart you can see that we've 57% of our reserves that we had at the beginning of 2004 are pure insurance products and they will remain at local GAAP which here is a financial soundness valuation, or FSV, or in the US it's generally a FAS 60 or FAS 97 that they're valued under. We then have the 17% of investment contracts which have discretionary participating features, and again they are going to remain at local GAAP. Then under IAS 39, sorry for investment contracts we move to IAS 39.

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Now in terms of which of our products do we see landing in each of those areas, if you look at investment contracts first of all, within OMSA, that's your unit trust

business, your flexi or investment horizons type products. And then within insurance we're left with the more traditional type products in the US or certainly down here in OMSA, the green light and the group schemes are still very much left in there and as I said the discretionary par. is those ones with soothing accounts and that's only OMSA that is included in that bucket. Within the chart, within investment contracts, is 9% of US Life's book has been classified as investment contract with the remainder being OMSA.

So then as we move into the valuation of these investment contracts. On the UK GAAP basis as we said it was SFV and US GAAP we would use. As we move to IFRS it allows us to adopt either fair value or to hold at amortised cost. Now given the future uncertainty within the market and as a result of the insurance projects, we as a group along with our peer group globally, decided that we would try to go for maintenance and stick with valuations that we already had firmly embedded within the businesses and so as a result, OMSA have followed the fair value approach and US Life have followed an amortised cost approach.

And so the change that you can see in terms of numbers, is one that's been driven very much at OMSA level with the OMSA adjustments representing the increase to set liabilities equal to full account value. Which of course is their units times the market value of those units, and the US has remained as they are.

So now we've managed to do valuation and the classification we now need to go on to a little bit about disclosure, as how we deal with disclosure of these investment contracts. Within the UK GAAP, premiums and claims are disclosed exactly as that - premiums and claims – and as we move into an IFRS world, we apply something that we call deposit accounting which is in essence the amounts that were received from and paid to the policyholders are all adjusted through an investment contract liability line, and so there are no premiums and claims reflected on our profit and losses any longer for these businesses. All other P&L items are reclassified into fee income. This doesn't impact our equity, nor does it impact the adjusted operating profit, but it does clearly change the shape of the primary income statement. Certainly within our segment information, we continue to manage these, the insurance and investment contracts, as part of our long-term business segment and you will be able to see the premiums and claims as we move forward. And we'll certainly report the sales on an APE or an embedded value basis.

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You can see on your slide there the impact it does have on our premiums of almost £1 billion at OMSA and £343 million for US Life.

One of the opportunities we had when we implemented IFRS 4 was to look to see where there were anomalies in the current system and where we were experiencing some mismatches on our balance sheet. One of those big

anomalies is something that comes out within the US and within the US they defer that position costs and the present value of future profits, the PVFP, are amortised on the expected growth profits which includes a smooth realised gain. We improved, we went about to improve this policy which is the terminology which you use within the IAS 8 to basically better reflect the matching between our assets and our liabilities. We replaced the smoothed realised gains with actual realised gains that we did achieve in the DAC/PVFP EGP streams and we then initiated a smoothing adjustment which is known as 'shadow accounting' within IFRS 4 and US GAAP and this in essence allows for the DAC and the PVFP offset for unrealised gains within shareholders' equity to be matched off. And so with the allocation of OMFN's unrealised gains through equity, this then means that our balance sheet going forward is far better matched than it was historically.

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And we can see there the impact that it has. Now this doesn't impact on our adjusted operating profit, it's very much an equity movement. These charges to equity are offset by the unrealised gains that we see flowing through from the business there. This is a change as we look as compared with the UK GAAP and in going forward, it will move more in line with market changes so the number wouldn't be as big if you were to compare on a year on year, but it does look large in comparison to UK GAAP and certainly the shadow offset helps smooth those out going forward.

If we then go on to the elimination of equalisation provisions (trying to say two words at once there) on the UK GAAP, by statute we're required to hold what we refer to as an equalisation or a catastrophe provision. This provision isn't allocated to any one particular line of business or any particular event, but it is held in anticipation of some significant losses arriving following an event that has not yet occurred, a drought for example. This isn't something that you hold within South Africa, and so we've eliminated it for IAS which removes one of the areas of mismatch that we used to have between our South African and our UK GAAP results, and so certainly I see this as a very positive move going forward so the M & F now match most of the group results as we move on.

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So that was IFRS 4. If I move on to IAS 18 which talks about Revenue Recognition. I'll just remind you of our policy under UK GAAP before we get too far. Under UK GAAP, the initial and recurring fees are recognised as received and acquisition costs are expensed as they're incurred so therefore they are not deferred. However, under IAS 18 we have had a change which applies to our investment contract, our asset management and our banking segments – it's very important to know that this does not apply to our insurance segments which they're remaining on the local GAAP as a result of IFRS 4. Fees in relation to services that these businesses provide are deferred over the period the service

relates to, so for a new one off contract you charge a far greater fee than you do in the following three or five years that excess of the fee will be charged over the three to five years of the contract going forward. We then have transaction costs, generally only commission, which are deferred on a similar basis moving forward. And then the recurring fees are recognised as earned.

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As we look at the business units that were impacted by this it's OMSA in terms of investment contracts, and then also Nedcor in terms of a lot of the structured finance type deals. This is purely a change to the timing of the profit recognition, and as I said, the front-end fee is then deferred and the profits are recognised later under IFRS than they are on the UK GAAP. For a business that is writing a lot of new business, you can see that this could start to bring in a little bit of new business strain in the upfront years until we wait for the profits to flow through the lifetime of the contract.

Moving onto IAS 32 &39 Financial Instruments – this was by far the most complicated standard I think that we had to implement. We had a significant advantage, I believe, over our peer group in the UK in that South Africa had adopted this far earlier than us in the form of AC133 so some of the pain that some of our peers have been going through the last six months is something that we now have embedded down here. Unfortunately, there were a few differences from the AC133 to IAS 39 so there are a couple of catch-up adjustments that

Nedcor are having to make, but for me, the IAS 39 is very much a story of Old Mutual plc coming in line with where Nedcor has been for the last while.

Again, with any large standard, you can expect there to be a number of topics. I am going to go through first of all the classification and valuation of the financial instruments. I will then talk a little bit about derivative and hedge-accounting. I will then move on to what is in essence a sub-section of derivatives which is the embedded derivatives which is something which is peculiar probably to our insurance business currently. And a little bit then on impairment of loans and receivables.

So the Classification and Valuation of Financial Instruments, again, I'll just remind you where we were on the UK GAAP basis:

Within our insurance businesses, the investments were stated at fair value with gains and losses being included in the income statement. Within the banking businesses, securities which are intended to be held to maturity, are stated at amortised cost. Securities held for trading purposes are held at fair value with related gains and losses being included in the income statement. And then other investments across the group were stated at cost.

So we had a bit of a mix as to how we had to treat investments under UK GAAP.

Under IFRS, the same accounting applies to all segments going forward. There are four basic asset classifications that you need to be familiar with:

Loans & Advances which are on amortised cost basis;

Held to Maturity - again, are on amortised cost basis – and this differs from the Held to Maturity that we would historically have seen within Nedcor's books in that these assets – you need to have the positive ability and intent to hold them to maturity - and as a result, this actually turns out to be one of the smallest classifications that we have used as there are fewer assets that we want to tie ourselves into to that extent.

Available for Sale Investments which are fair valued through equity and reversed through the P&L on sale or impairment of those investments. That's the classification that US Life have been using;

And then Held for Trading or Designated at Fair Value through Profit and loss which is where you OMSA traditionally having their investments;

Liabilities are designated at fair value or measured at amortised costs and I'll come on to talk more about liabilities later on this afternoon.

So when we look at the classification and valuation of financial instruments, you can see the main drive we have is movements resulting from Nedcor, and this is very much us catching up with them. So there's Nedcor's value through the profit and loss as well as Nedcor's available for sale classification. US Life's available for sale classification doesn't appear on this slide because it has a nil equity impact. They were already at fair value and are only changing the area in which they're disclosed, and US Asset Management have a small holding of available for sale investments as well.

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If we move on to derivatives and hedge accounting, banking book derivatives under UK GAAP were recorded off balance sheet and accrual accounting through the profit and loss, and trading book derivatives were marked to market through the P&L and recorded on balance sheet at fair value.

On the IFRS, all derivatives are recorded on balance sheet at the fair value. The movements of those derivatives are recorded either through the P&L or equity, depending on underlying asset or liability if hedge accounting is being adopted; otherwise they go through the profit and loss account.

Now, within the 'CESR' document as we refer to in your pack, you'll see there are some quite significant gross-ups in terms of derivatives in relation to Nedcor's business, where we've separated out the assets and liabilities, but there was no particular impact on our equity or P & L from them. The main change comes from our head office, activities within hedging. We've adopted hedge accounting going forward from 1 January 2005, which means we have got some profits going through for the year 2004 that you wouldn't see next year as they will be part of equity.

And certainly going forward, Nedcor is introducing a macro hedging programme to offset their fair value fluctuations for the new business that they write.

The next topic within IAS 39 is embedded derivatives. Under UK GAAP basis, Insurance contracts and financial instruments containing an embedded derivative are valued according to local GAAP requirements. On an IFRS basis, Financial instruments embedded in non-financial products are required to be separated and valued at fair value. I'll just try to explain that a little bit, in essence what you're looking at is an insurance product that has within it a derivative that doesn't have any insurance risk but is a financial instrument derivative so therefore it's got risk that's basically investment on market type risk, and so we have to separate those out and value them on a fair value basis where they haven't already been valued. If we've got any embedded insurance derivatives,

they remain within our insurance products and they're valued on a local GAAP basis,

When we first started the project, I think it would be safe to say this is one of the harder concepts for us to get our heads around, but ultimately what we saw actually is it's an adjustment that impacts us really quite little. The main impact is out at US Life and it's due to some of their derivatives they had on some of their reinsurance treaties and also on their EIA product. The equity impact from the beginning of January to the end of the year has decreased due to the planned recapture of a reinsurance treaty and a release of related liability during 2004. On an ongoing basis we would expect this to be relatively low. Again it doesn't impact our adjusted operating profit, because in line with our smoothing methodology that you're familiar with on realised gains and losses are not brought in for US Life's business.

Impairment of Loans and Receivables - you'll all remember a couple of years ago when Nedcor adopted the AC133 this was probably one of their single biggest adjustments. It was an adjustment that we also took into UK GAAP at that time, so actually what we see now is a relatively small adjustment in terms of loans and receivables and its probably around the finer lines and the increased definition that's happened within the IRSB since Nedcor adopted the AC133.

Under UK GAAP, the group creates provisions that are a blend of both incurred and expected losses based on experience. The impairment was then calculated on a discounted cash flow basis at the effective interest rate including an allowance for credit spread.

Under IAS 39, in line with the removal of equalisation provision within general insurance, we've also said that within the loans and receivables, that we would need to remove that expected loss based on our experience and so therefore we've gone to a model purely on an incurred basis. Then the calculation of the discounted cash flow is that the effective interest rate but excludes any allowance for credit spread.

So fairly precise points of difference which is quite different to what we saw a couple of years ago, clearly the impact of this in terms of business units is going to be at Nedcor. In general this change would result from a slightly later recognition of losses, since losses will be driven by the prevailing market conditions rather than an expectation of those conditions. But I think key in here Nedcor has always been impacted by the market conditions, I think more in this than in the impairments going forward.

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The IAS 39 and the EU carve out – this is one of the results we think some European bureaucracy – within the ECB, the European Central Bank, there was a very strong desire not to have any liabilities, they referred to the banking industry valued at fair value – this is out of line with what the IASB had written and which certainly Nedcor had adopted down here in South Africa, so what we have ended up with is an EU endorsed version of IAS 39 which limits the designation of financial liabilities as fair value through the profit and loss and any liabilities not qualifying are valued on an amortised cost basis.

For us this was very much restricted to the Nedcor fair value liabilities. South Africa adopted the original, or the original revised IAS 39, Nedcor has elected to retain the designation at fair value for local reporting, creating unfortunately, a GAAP difference between Nedcor and ourselves though one that we do fully support. There is a difference of £55 million to the liabilities; and an income statement difference of £6m additional profit in this year for OM plc. Its important to know that Mutual & Federal and OMSA are not impacted by this carve out due to the nature of their liabilities. The IASB is working very hard on this issue at the moment with the European Central Bank and the EU and its one of these cases in which we do believe resolution is expected shortly. We'd hoped it would be something we could clear out in 2005, if not it will certainly be a 2006 issue, but we're looking forward to us all going back on to a fair value basis.

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I'll leave IAS 39 behind and move on to IFRS 2 which is Share-based Payments. Share-based Payments is an interesting standard and one I think is evolving in terms of its interpretation throughout all the professional firms and the industry as a whole.

If I just refresh where we were in terms of UK GAAP – under UK GAAP, the costs of awards are recognised over the service period. The cost recognised is the difference between the market value of the shares at the date of grant and the amount of any consideration the participant is required to pay for the shares – for options, this was a typically nil value and for the restricted share plans it was generally a share price on grant date. So in essence this meant that most people didn't actually have a charge for their share options going forward.

However, under IFRS, all grants now attract a charge. It's very important that we understand the distinction as to how that charge is calculated and that is driven by whether we have an equity or a cash settled share scheme. I'll deal with equity settled schemes first – here the profit and loss expense equals fair value at the grant date of the share option or the restricted share and is accrued over the vesting period, and a charge is made to equity. This means that your equity settled schemes are generally fairly constant over time in terms of their valuation and you'll make adjustments for leavers, generally.

As we move into our cash settled awards the fair value is accrued over the vesting period but the key difference is the liability is re-measured in each reporting period until settlement. This means that as the share price of Old Mutual plc is going up, so is the charge as a result of share-based payments. Clearly, as it goes down you have the converse, that's not generally one of our targets.

As we move in to see which business units are impacted, you can see that the biggest impact is actually within OMSA and the reason for that is that the OMSA scheme, by being a nature of a subsidiary, is the main cash settled scheme we have within the group. Then Nedcor in the UK also have some charges, but they're arising from our equity settled schemes. The impact is nil or from January due primarily to IFRS charge being offset by the reversal of related UK GAAP accruals, and then the charge increases as we go through the year because of the OMSA cash settled schemes going forward and this is one of the areas when Julian talked earlier about volatility that we would expect to see movement going forward.

IFRS 3 Business Combinations – and in terms of Business Combinations I'm primarily talking about Goodwill. Goodwill ceases to be amortised and is subject to impairment testing. My understanding of your analyst models is that you

generally strip goodwill out so this is some movements within our operating profit or non-operating profit that you won't need to deal with going forward. The adjustment that is made to Nedcor relates to goodwill that's held both at group and locally, and certainly that adjustment that's at the opening balance is to tidy up some goodwill differences we had at plc with Nedcor. And then the plc adjustment represents a restatement of the treatment of goodwill with an offsetting adjustment to minority interests within equity.

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And then if we move into Consolidation - IAS 27 – while the rules of consolidation within the UK GAAP and IFRS would appear to be broadly similar, it think the interpretation of those rules has become quite a lot more stringent as we've gone through this process which has resulted in a couple of other entities which we didn't use to consolidate are now being consolidated, and has now also resulted for us, Old Mutual plc, with the removal of this distinction of the policyholder and shareholder funds.

And the adjustment that you can see at plc there, which is by far the most significant, represents the removal of the policyholder investment that we have within Nedcor's bonds and preference shares which we carried at market value. So that's removing both the investment and the unrealised gains to date.

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Another consequence of IAS 27 which has been hotly debated within the industry and professional firms, is the consolidation of those investment funds where we haven't got more than 50% held within the held within the investful assets of that fund – previously we would always have consolidated just our share of any of those funds and the portions that were held by third parties we wouldn't consolidate. What the interpretations of IAS 27 say is that if you hold more than 50% then you clearly have control of these funds and so therefore you should consolidate them. Now we're continuing to monitor industry developments so this could be something that changes as we go forward but certainly to date, we have made the adjustments. It results in a gross up of £556 million at the end of 2004 and £396 million on our balance sheet at the beginning of 2004. There is no impact to operating profit or equity, but again it changes the shape a little bit of our balance sheet and certainly in terms of gross ups we'll make it clear to you where we've brought these things in.

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If I start to look at the other impacts, the five that were on the right hand side of Julian's slide earlier:

Property under IAS 16, we've elected to hold this at depreciated fair value – previously we would have had a mix of depreciated fair value and historical cost.

Post Employment Benefits, an adjustment, which due to some action we took at OMSA in the early '90's, has had far less impact to us than we have seen in a lot of our peer group.

Then, the Defined Contribution Schemes - there is no significant change.
On the IFRS 1 which is the standard that allows you some exemptions on the first time that you adopt IFRS, we've recognised full actuarial gains and losses at 1 January 2004.

And then going forward in terms of the Defined Benefit Schemes, we will continue to use the "corridor" method, which you're all familiar with to date under South African and UK GAAP reporting.

Within Dividends – the dividends proposed but not yet declared a balance sheet date are derecognised as liability and disclosed.

I just want to touch briefly on some Presentational Issues. When our glossy financial statements land on your desk next March, they'll make a bit bigger of a thud than they did previously, and this is due to the vast increase in the volume of disclosure that we're required to give. The increase is driven by many things but predominantly by IAS 32 which previously only the bank within the group had to comply with and it now applies to all financial institutions. Also, with IFRS 4

where we will provide more information on the risks in our insurance products and also some of the assumptions which we use within them.

The Income Statement - we will publish a combined income statement with continuing emphasis on our segmental information. This means that the technical and non-technical accounts that you're used to seeing in our financial statements disappear going forward, and we have one consolidated income statement. We will, as we did just now in our CESR document report a secondary income statement based on the long term rate of return.

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Our cash flow statement also has some changes to format and also now includes policyholder fund cash flows which again is something I believe that OMLACSA used to do down in South Africa. We will continue to provide you with the UK GAAP to IFRS reconciliation throughout 2005 so that you can see what our results would have been on our UK GAAP basis in preference to what they have become on a IAS basis.

And then, Julian, I'll just hand back to you on some closing remarks.

(00:42:35)

Julian Roberts

Thank you Katie. Two and a half years' work in thirty minutes. Well done – very complicated. The test papers will be handed out in a minute when we've finished.

I said that we would cover BEE and the impacts of IFRS on BEE. The key difference, I said earlier, is IFRS 2 Share-based Payments which result in an additional charge. I want to say at the outset, before going through the numbers, the economic cost of BEE remains unchanged and as well, there will be no change to the adjusted EV calculations.

On the announcement of BEE we've put a chart like this splitting first of all the initial charge, that's the one off charge. Then the annual charge – our best estimate of what we think the cost will be over this ten year period and then in the final column, the total year one cost.

If I go back to the left hand slide and look at the initial side, if you recall, under UK GAAP, the main charges here were the broad-based schemes which effectively vest immediately. The IFRS adjustment – we keep the broad-based schemes but added to that, for OMSA and M&F, are the estimated costs of the Black Business Partner Scheme. And that is taken in both OMSA and M&F that estimate of the cost upfront. You can see that there is no change for Nedcor

initial because their scheme is slightly different from OMSA and M&F, and if I move across to the second column, the one change under IFRS is in Nedcor, and that Black Business Partner Scheme now is taken over - the cost of that is taken over a ten year period. In addition, and by far the biggest element as well, is the retail and corporate schemes – and that is the most significant impact on Nedcor from the IFRS charge.

So under initial we go from 10 million to 35 million. On an annual we go from 18 to 28 million. And if you look at this on the impact on our adjusted earnings per share, we made 15.3p under UK GAAP - as we announced, that was going down 3.3% to 14.8p. If we now move to IFRS, the 2004 earnings per share would have been 14.8p and after these IFRS adjustments it's 5.4% dilution to 14p - or if you look at it another way and you're looking for actual pence – the annual charge, the ongoing charge over this ten years was, under UK GAAP, 0.5p and that increases to 0.8p.

Are there any other impacts on our other financial measures? Well, broadly the answer is no. The capital requirements are driven by local regulatory accounting, there's no impact on the requirements until local regulatory authorities adopt IFRS. Similarly, under the Financial Groups Directives - the FGD requirements continues to be based on local statutory basis and has no impact via IFRS. At some stage I'm quite sure in the future the local regulations

will move onto IFRS, but at the moment there are no signs or no indications of those dates. IFRS also will not impact on dividend paying capability - yes some distributable reserves will go down, but our dividend and our yield will carry on unaffected. And embedded value – there is a minimal change to our embedded value calculation.

Just then touching on the timetable, we're announcing this for the group today, Nedcor – Mike Brown is going to take you through on the 6th May, the implications in detail for IFRS for Nedcor. On the 11th May, Old Mutual issues the Q1 trading statement on the IFRS basis, again, Nedcor will have issued theirs after the Nedcor Board Meeting – does that go out tomorrow Mike? On the 5th, on Thursday. And again, M&F will be releasing a trading update, I think this will probably take place on the 11th May with the Old Mutual one. On the 20th June, our work doesn't stop with IFRS, we're now going to adopt European embedded value, and we're then going to come back to you on the 20th and go through those details. As long as everything works to plan, our target date for our interim results is the 11th August and we will confirm that date on the 20th June.

February and March 2006 – too far out to talk about them.

(00:47:56)

In summary, IFRS now is embedded into our internal and external reporting process. We will in 2005, as Katie said, reconcile back to UK so you can see exactly where the movements are coming. There is no change in the underlying economics of the business, we will continue to use EV and return on equity as the primary performance measures and our dividend paying capacity won't change either. We have to accept that there is more volatility that is going to come through on our earnings, particularly IAS 32 IAS39. We are going to be looking into the future of ways to reduce that volatility through the hedging, bringing in macro hedging we hope will then of course reduce that volatility. The impact on equity, profit and adjusted EPS for 2004 is relatively small, I think that adjusted EPS of 3.3% that you saw is in line with certainly what we've seen in Europe. I think if I'm looking forward to 2005 and I was going to give you a steer towards the impact, I think the gauge of between 3 and 4% dilution from IFRS I think it's that sort of range, and of course the BEE estimate again depends on what our share price is but you see the calculation and the guidance we've given you is around 0.8p, so total I think in the order of 1.3 –1.5p of the sort of overall factors that I think would be a useful guide or the best guide I can give you. As the year progresses of course, things will change, volatility will come in but I wanted to give you a guide moving forward.

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Katie is going to come up and join me up here now because we're going to move on to a question and answer session. You'll have noticed that we've not just got

Katie, we've got other experts in the room – we've got Mike and Darryl, the Nedcor team, we've got Kevin over here from OMSA, we've got Peter from Mutual and Federal, I keep on being told they don't like being called 'M&F' so I have to call them Mutual and Federal – I think I transgressed about five times didn't I during this presentation. But if there are any questions, please, first of all we'll take them in the room, if you could grab – Tracy's got a roving mic – if you could grab the mic if there are anything. I can also well understand if you wanted to take it away to digest them.

We've got a brave person here.

Q & A

(00:50:4)

Question 1

Definitely not an accountant so you have again explain it a bit better. Two questions at this stage. The first one is could you explain the grossing up on the policyholder funds in South Africa, a little bit more detail just to make sure I understand fully how that's all happened. And the second issue is the fact that you said very little impact on embedded value – I'm assuming within that, you're not really discounting the increased costs of the empowerment transaction - and would you have any more comments to what that dilution would have.

Julian

Kevin has come all the way from Cape Town just to answer that first question so I'll give the mic to him on that one. I think embedded value – there are a number of things on embedded value. The calculations, there isn't a huge impact – I think the impact that I was worried about on embedded value and that hasn't proved to come through is whether actually the market value of Nedcor and Mutual and Federal would change because of the BEE deal – that hasn't happened so really any change on EV is really a margin. Kevin – do you want to answer?

Kevin

Alright, I'll deal with the –

Julian

Do you want to stand up so you can face the - you can be webcast as well –

Kevin

The question around the grossing up of our liabilities - basically under IFRS, we're required to carry our liabilities at account balance level and under the old approach that we had adopted under FSV, which was the local GAAP in South Africa, as far as our investment contracts were concerned, and insurance

contracts as we carried negative rand reserves – and its effectively the negative rand reserve which is having to be eliminated in respect of our investment contracts.

Julian

Looks like a supplemental for you Kevin, so I wouldn't sit down – is it another one for Kevin?

Question

And one for you as well. I'll start off with Kevin. Kevin, does that mean that the actual tax rate wouldn't change, just a deferred tax liability or in fact asset would be created?

Kevin

Yes, that's quite right. Basically from a tax point of view, revenue is going to continue to tax us using the FSV approach. So what you have is a temporary difference between your accounting profits and your taxable income and it therefore comes through the deferred tax line. In terms of the actual revenue's cut out of our profits, they will still continue to be paid the same amount of tax – so it comes through your deferred tax.

Question

Julian, just coming back to the embedded value question, I guess the one issue that I look at – the NAV has remained relatively constant but within that you are now incorporating the dividend, so in truth, if one looks at the actual NAV, it has gone down substantially. Now would your comment be that the value of in force essentially has offset that difference and therefore the EV is largely unaffected?

Julian

Have you got any comment to make? She's not only my IFRS expert, she's also my EV expert.

Katie

See you on the 20th June. I think when the value of in force is not been impacted at all by the IFRS – I must say its very much an embedded value point. You're right to say that the reduction, the removal of that liability for dividends does have an impact on the balance sheet at the end – so if that had been the only adjustment that we had made, you would have seen equity go down. It's been offset by the likes of the fair value ones coming up on the other side.

Question

Just a question on this insurance versus investment contracts, because that's been changing all the time and the thing is investment contracts that have a big gap between the fund value and surrender value are those recognised as insurance still, because obviously on death you pay the investment value rather than the surrender value. I mean that's quite a big price on policies, especially the old Universal Life policies.

Katie

Gary – do you want to –

Gary

You mentioned the word Universal Life. Universal Life contracts tend to have life cover on them, so they'd be classified as insurance, but if you had a contract which had no life cover on at all it is effectively a pure savings contract the difference between the surrender value and actual underlying account balance, that would not classify as insurance risk, so it would stay as an investment contract.

Katie

Thank you Gary.

Julian

Now any questions for the Nedcor team –they're sitting in the middle of the room desperate to answer a question. Are you going to save it all for the 6th? Is there any question on the webcast or telephone?

Operator

We don't have any telephone calls – no.

Julian

Okay. Anything else? Okay, well everybody is going to be around for a while outside if you've got any further questions. And naturally as is always, once you've had a chance to digest it, then I think probably in the first instance, come back to Dewald here and then we'll feed them back to the UK or anyone else. But, thank you for coming – I hope it was useful. Thanks.

Ends