Jim Sutcliffe, CEO, Old Mutual Plc

I. Preamble

Good morning everybody. Welcome back to those of you who were here yesterday, and welcome to those of you who didn't manage to come to the Skandia session. Thank you to those of you who came last night to the dinner, which I hope you all enjoyed. There is the disclaimer, which of course you're expected to read very carefully, and anybody who doesn't follow it has to leave the room right now!

II. Recap of Skandia's Growth Story

Getting on to Skandia's growth story by way of recap from yesterday very quickly. I think Julian and his team showed you the potential that they and we and I believe resides very much in those businesses, and certainly the UK business. The development in the platform that is going to happy in July I think will continue to ensure that Skandia is the world leader in the open architecture space; certainly from a UK perspective I think it's well ahead of its peers. I think you've seen also that the 2008 targets that we laid out on 20 June last year continue to be not only on track but are now likely to be exceeded in some significant respects. Crucially, the growth that's available for Old Mutual as a whole delivered from Skandia is now very, very significant.

The acquisition of Skandia certainly was a step change in our ambition to build a premier international savings and wealth management organisation. Of course, Skandia is the leader in the open architecture space, but the measure of an asset management organisation I think is fairly measured by assets under management, and indeed, the quality of returns that we provide on those funds to our customers. With now something like £250 billion under management we laid out the target of £300 billion for the end of next year, and I think that you can see that we're well on the way to that with the various groups of funds in there. By the way, that doesn't include the Nedbank assets, which add another significant block of revenue in profit earning assets.

III. OMSA's Growth Opportunity

Today is really about South Africa. Before quickly introducing Paul and then handing over, quickly to the logistics. Paul, as yesterday, is going to have his team speak after he does, and we'll have a short question and answer session after each person speaks. We'll try and keep to that a limited amount, if you don't mind, so that we keep the time. We'll have a big question and answer session at the end.

It is a great pleasure for me to have Paul here. There's no doubt that Paul and his team, since Paul became Chief Executive – I can't remember which month it was – but at the beginning of last year, I think the drive and the energy in OMSA has been terrific. Paul and I share something that I suspect nobody else in the room shares, that we're two-actuary families. Now, that's a great thing to have folks. Paul managed to get his second actuary by marrying an actuary – and Cathy is a wonderful woman as Paul will tell you. I had to go the hard way and get one of my sons to become an actuary to get the balance in the family right, but anyway Paul will no doubt convince you of that when he speaks.

More seriously, Paul will go through this in detail. Paul has started out on a process of transforming Old Mutual South Africa. We always had a great history: a very sound, solid, big ROE business in South Africa. But what Paul and his team have started to do – and it is a three phase plan as you'll hear from Paul – is to move it on to the future.

We've already seen the return of growth in the retail business thanks to a lot of the work that's been done by Mike and Marshall and others. Again, the demographic opportunities in South Africa remain great for that to continue to be the case. We are making, and they are making, fundamental structural changes to the business to make sure that it faces off to the customers and faces off to the future. We are making changes on the asset management side, and you'll hear from Tim and Thabo about the change into the US style, or Old Mutual US style boutique asset management process, which I think will ensure that we do provide those high quality investment returns to our costs for the future. On the service side, the work that Rose and Peter De Beyer and others have done I think will ensure that not only do we provide great quality service to our customers in South Africa, but that we provide that service at very competitive, indeed the lowest costs in the country, I believe.

The result of all of this work is that with our history as the number one life assurance company in South Africa I think what you'll hear from Paul is that we're committed not just to being the number one life insurer but the number one provider of savings and wealth management products across the whole spectrum of the industry. It is an ambitious goal, but it's one that Paul and his team are confident that we can achieve. With that, Paul, I'm going to hand straight over to you. So thank you very much ladies and gentlemen and we'll see you at the end.

Growing Our South African Savings and Wealth Management Franchise

Paul Hanratty, Managing Director, Old Mutual South Africa

I. Introduction

Jim, thank you very much indeed, and good morning ladies and gentlemen. Jim has explained a little bit about the Old Mutual strategy and how we fit into it. This morning my team and I are going to provide you with some more details about our strategy. As Jim mentioned, at the end of each section we'll have time for a couple of questions. I will ask at the end of my first section that we don't take any questions because they're likely to be covered later.

I'm going to start off by giving you a very brief introduction to our strategy and the background to it. Then Marshall Rapiya will talk about how we're capturing the mass retail market in South Africa. Mike Harper will talk about how we're tackling the retail affluence market. Tim Cumming will talk about what we're doing in the corporate market. Thabo Dloti will explain how we've re engineered or are in the process of re engineering our asset management operations. Finally, Rose Keanly, who's also in the front here, will talk about what we're doing to drive back office synergies and service improvements. I will then wrap up at the end just to give you an overview of how that all comes together in financial terms

I think many of you probably know that Old Mutual South Africa, or OMSA as we call it, is a very old business. We're 162 years old this year on 17 May and we have a very proud history. We're in a way a household name in South Africa. For those of you who don't know much about us, we've put a little pack together, which I'm sure you'll throw most of away in due course, but there's a pack on your chair and you can get a feel for some of the brochures and the products and the way we talk to our market. I'm going to start off by showing a short video of some of the advertisements that we flagged in South Africa that talk to our public so you can get a feel for our brand and how we position ourselves in the market.

[Video]

II. South Africa: A Fast Growing Economy

I know that all of you have a lot of information about the South African economy. I don't want to get stuck into the detail of forecasts or figures, but what I do want to do is to share some of the trends that we see taking place in the economy in South Africa and explain how that's going into shaping our strategy.

South Africa had a period of very big structural adjustment in its economy a few years ago, but since then we've had very strong economic growth. We have had 34 consecutive quarters of positive real GDP growth, which for us is somewhat unique in our history. We believe in Old Mutual South Africa that the growth prospects for the medium and the long term are actually very good. It's a combination really of the commodities cycle, the infrastructure spend that's necessary and committed to in the country, as well as the demographics and the demographic changes that we're seeing taking place. Inflation is well under control, but I think it's fair to say that the commodities cycle and oil prices are putting the Government's inflation targets under pressure in the short term, but fundamentally inflation is now well under control in the country.

The one challenge that the country does face is to raise savings levels. Net savings rates are at very low levels and we do depend as a country very heavily on foreign capital for investment.

III. Demographic Shifts Are Driving Demand

The share of national income in black hands has been rising very strongly over time. You'll see in the left hand chart that recently for the first time the share of the national income in black hands surpassed that in white hands. If you look in the right hand chart what it's translating into is a steady growth in the number of black people who are entering the affluent and the middle market. If you look in the right hand chart, the number of white customers that we regard as being in the retail affluent market has been pretty steady over time, but the number of black customers has risen quite dramatically and will roughly double or more than double in the nine years shown in the chart. That presents some real growth opportunities for us.

The black market tends to, on average, have a much younger demographic and it's at a much earlier stage of the financial lifecycle. So these are people who tend to focus on buying credit and then buying goods with that. But we do believe that as this market matures and ages so they will move heavily into the wealth management and life assurance arena, and that provides us with a great growth opportunity.

IV. Savings Stock Growing at GDP + 5% …

I mentioned that our net savings rate in South Africa is low, and it is a long-term worry for the country, but the point is that the stock of savings is growing really nicely. From 2001 to the current date, if you take the total stock of savings in the market it's grown by 13% compound over that period. However, the interesting thing about it is the mix of that stock of savings has changed quite fundamentally. So if you look in the chart you'll see that the proportion of life assurance in that stock of savings has declined over time, but the proportion of the unit trust industry has risen really strongly. We believe that that's a trend that will continue.

I think what's interesting is that bank deposits have held up really well as a steady proportion of that total. The reason that is interesting is that the stock market has risen by 22% per annum over that period, and clearly bank deposits don't benefit from that.

As I said, we think that this shift from high margin, high capital intensive products typically represented by the life industry to much lower capital, lower margin products represented by the unit trust industry, that trend is going to continue. We think there are a number of really good reasons for it. Firstly, inflation has come down in South Africa. You heard Themba talking last night about inflation of 20% and 18% in the mid 1980s, and today inflation is down – the Government targets a range of 3 to 6% and it's typically more towards the high end of that range, but nevertheless much lower. So customers are looking for a set of charges that are a lot lower than traditionally was the case. In addition, there have been tax changes and regulatory changes over the period that have actually swung the balance in favour of much lower margin, more flexible, and less capital intensive products.

I think the key point to take out of this slide is that the savings market in total in South Africa is in a strong growth phase, so that presents a big opportunity for us.

V. … but Not Where We are Traditionally Strong

We think that the forthcoming changes in the pensions industry, which will take a number of years to unfold, will exacerbate this trend, as it'll promote the idea of more member choice for individual members. We think that will push, again, this trend towards more flexible, less capital intensive, and lower margin investment products.

I think you all know that Old Mutual South Africa is the biggest company in the life sector. By assets, we have a 36% market share of the life industry. But in the unit trust industry, which is a much more fragmented industry, much fewer barriers to entry, we only have an 8% market share. If one takes the total

savings cake and you put our positioning together we've had a decline over the period in the chart from having 19% of the total savings market to 15%. If you include Nedbank, who have a 27% share of the deposit market, then as a group in South Africa we've come down from 21% to 18% of the total savings cake. But our goal, as Jim mentioned at the beginning, is to really redefine the business and the market that we're in; so not to stick just to the life sector but to see ourselves as playing in the total savings pie, redefining the market. We see enormous opportunities when you combine how you see the total savings market growing and the demographics of the country.

VI. Old Mutual South Africa Is Part of a Financial Services Giant

OMSA is part of a waterfront offering in South Africa for financial services. Together with Nedbank who provide banking products and Mutual and Federal (M&F) who provide what we call short term insurance or general insurance, or property and casualty for the Americans, we do cover all the bases. We have really three centres of excellence: ourselves focusing on life and asset management, Nedbank on banking, and M&F on short term insurance.

OMSA has 3.2 million retail customers, Nedbank has 3.9 million retail customers and M&F another 1.1 million retail customers. Between Nedbank and Old Mutual we only share about 800,000 common customers. Between the three companies together, the sharing of common customers is only 300,000. So there are enormous opportunities for cross sell in the retail base. In addition to that, in the corporate market both OMSA and Nedbank have quite big corporate customer bases and, again, a relatively limited overlap and some really good opportunities to cross sell.

Between 2003 and where we were at the end of 2006, our retail APE we sourced 5% in 2003 of that from Nedbank's customer base, and by the end of last year that had risen to 15%. So very successful cross selling into the Nedbank client basis.

The synergies don't just stop at the cross sell point. In 2006, the three companies entered into a telecommunications outsourcing deal, the so called Project Merlot – a popular South African wine as you've gathered – and that's resulted in a cost saving to us at OMSA of R56 million per annum.

VII. Our Goal

As I mentioned earlier, we're trying to redefine the market space that we play in. So whilst we may be the biggest life insurer, and I think most of you know that in the period following listing there was a lot of effort into cutting back and making our sales forces more cost effective, and so we lost market share, but the last few years we've been turning that around and we did regain our number one spot for life new business market share last year. As I said, in assets we're clearly number one in the life industry, but we do have an ambition and a goal to be the number one across the entire savings and wealth management business. I'm going to talk later about what we're doing to achieve that. Clearly, we're working closely in partnership with Nedbank and M&F to make sure that in South Africa as a whole we also build the number one financial services franchise.

VIII. We Are Well Positioned

At OMSA we cover the entire spectrum of the market and the demographics in South Africa. The left hand chart just shows you the proportion of the population of 47 million South Africans, which race group they fall into. As you all are fully aware, the black population makes up the bulk of that. The middle chart shows you the spread of our retail customer base. You can see there we've got roughly a very similar proportion of black customers to white customers, so we've been doing a lot in our business to tackle all segments of

the market. The interesting thing though, or the really fascinating insight is the right hand chart because if you take the working population, OMSA has penetrated 43% of the white working population.

But in spite of the fact that we're the leading franchise in financial services in the black market, we've only penetrated 6% of that market. It's not because we're unsuccessful, it's just because that market is a new market and, as I explained earlier, it's in the early phases of its development for financial services and wealth management products. There's an enormous opportunity if you combine the growth in that black community, the rising income levels, with relatively low levels of penetration. That for us is a big growth opportunity.

IX. Old Mutual South Africa Is Now Structured Around the Client

Given the various shifts in customers preferences, the economic trends for growth and the demographics that I've alluded to, we believe that our business needs to make a number of really fundamental changes and transform itself if we're to have a chance of attaining our goal of being the number one player in the savings market. We also believe we can do it in a way that will generate shareholder value.

Because of the range of customer segments that we target, we've elected to structure ourselves around different market segments. In fact, you'll hear from the heads of those customer segments today. Those client facing units, their job is to make sure that we've got a customer proposition that's appropriate for the particular market, that we have distribution that gets to that market, and that they collect the assets and maximise the profit potential of that particular customer segment.

In the corporate market we offer a full range of products. We offer employee benefit administration, healthcare administration, group life cover, straightforward third party asset management, smooth business or guaranteed fund type investment offerings, and with profit annuities. We offer property leasing, we offer specialised finance to corporate clients, and so on. It's a very wide range of offerings.

In the retail affluent market, again we've got a complete set of products. So we offer an open architected investment product, we offer personal pensions, life and disability cover, health insurance. Then from Nedbank and M&F we offer mortgages, deposits, current accounts and household and car insurance. So it's really a full range. Then from unit trusts/mutual funds, life, disability insurance, health insurance and banking and short term insurance, the latter two sourced from the group companies.

In the retail mass market we've got a much simpler product range. We take basic life, funeral and savings products to market, but Marshall Rapiya will explain how some of that is set to change.

Our asset management business, which is Old Mutual Investment Group South Africa, or as we refer to, OMIGSA, for short, has a full range of boutiques. So the money that's collected by the front facing business units is managed under mandate primarily by OMIGSA, but of course our US asset management and UK asset management businesses manage our offshore assets. And because we have an open architected approach we do have assets from our clients sitting with other asset managers.

The front facing business units all have service level agreements with the specialised and commercialised outsourcing business called OMSTA, which stands for Old Mutual Service Technology and Administration. Rose Keanly will give you some insight into how we're running that business a little later.

X. Old Mutual South Africa Executive Team

They're all sitting quietly at the front, barring two of them who couldn't make it. I have been told that this is the best looking management team in South Africa, but I'll leave you to judge that in the course of the

morning. I would say this though: I'm very privileged to work with such a talented and experienced team. I'll just give you a bit of background.

- Marshall Rapiya, who you'll see shortly, started life in the teaching profession, and saw the light to join Old Mutual 30 odd years ago as an adviser. He's worked his way through the ranks to today heading up one of our fastest growing and a very profitable business, in our retail mass market. I don't think there's any South African who knows more – and Marshall's a very humble person – but there isn't any person in South Africa who knows more about this market than Marshall.

- Mike Harper is one of many of us who started life on an actuarial bursary from Old Mutual. He's worked in a variety of actuarial, IT and general management areas. He did leave Old Mutual for a short period to work at M&F and then in IT, but he did see the light and came back to us. He heads up our retail affluent area.

- Tim Cumming is one of a couple of engineers that we have to balance up the actuaries. He has worked at HSBC, Allan Gray, and headed our asset management business in South Africa for quite a number of years before having a number of years in the US asset management business with Scott Powers. Tim brings a wealth of experience, primarily in asset management, to us.

- Thabo Dloti is another one of our actuarial bursary students. For those of you interested afterwards you'll hear that's a big part of our training programme at Old Mutual. Thabo has worked in a variety of marketing and actuarial areas. He worked in the retail mass market for a while and he now heads all of our asset management boutiques.

- Rose Keanly has had a long and distinguished career at Old Mutual, both in South Africa and in the UK. I think that if there's one person I'd like to have serving me as a customer it's Rose, as she runs a very tight ship in the back office so the rest of us can enjoy life.

- We have Ralph Mupita who looks after strategy. Ralph is another engineer, and also holds an MBA from Harvard. He's been with us for seven or eight years, and amongst other things has run our unit trust business.

- Peter De Beyer is another actuarial bursary student still with us. Peter's probably in South Africa, if you ask within the life industry, the person that people would turn to for insights into the industry and hard it works. There isn't anyone with a greater depth of knowledge.

- Our Finance Director, Peter Golesworthy, has been with us, I think, for nearly 10 years. Before that, he was at Anglo American in corporate finance.

Unfortunately, two people are not here today. Johannes Gawaxab, lives in Windhoek and runs our African operations. Johannes has been with us, I think, eight or nine years now and before that was running an airline. He started with us in the asset management business. Then Dudu Nyamane is our HR Director. Dudu joined us just under a year ago after 24 years at IBM.

So I think we have an experienced team with a lot of diversity of skills in it, but I think a really good team, as you'll see for yourself later.

XI. Powerful Business Partnerships

In addition to all the other assets that we have is a really powerful business relationship as a result of our Black Economic Empowerment (BEE) deal with two companies called, WIPHOLD, and Brimstone. These

are BEE investment firms. In the case of WIPHOLD they're also a women empowered firm. I'm very happy to say that with the performance contracts we have they have to help us with very specific deliveries. The first 18 months of experience has been really good and we've had satisfactory performance on all fronts in terms of those performance contracts.

One of the areas where they recently played a key role is helping us with the Unclaimed Shares Trust (UST), which in South Africa has been a very politically sensitive issue. They have helped us steer our way through the Government relations.

In terms of our performance contracts, they're helping us to deliver new clients in the corporate space and to retain existing customers where they have good contacts and good corporate relations. Their performance contracts also require them to help us open new markets. One interesting example that Marshall Rapiya may touch on is WIPHOLD have been working with us in rural South Africa to run what we call in South Africa, Imbizos. An Imbizo is really a large gathering of the community to have a discussion. We've really been engaging with communities in rural South Africa to find out what it is they need from financial services offerings. There have been some really interesting insights coming out, and an opportunity, as Marshall will explain, to tap into a completely new market. They have been helping us in terms of our operational delivery in the business.

XII. Key Challenges and Risks

Our industry does face some big challenges and some key risks in South Africa. Commission regulations are set to change early next year. We're going to move on recurring premium savings and investment products, not life products, but savings and investment products, from completely upfront commission to a split of upfront and trail. That's going to have an effect on the financing of intermediaries. Our estimate is that across the whole market there will be a reduction in income of around about 12% in the intermediary base if nothing changes, but for some intermediaries the impact could be as big as 30%. We believe we are in a very strong position because we have a dominant agency force relative to our competitors. The ability to finance that through this transition will be much easier for us than it will be for other competitors.

We do believe that in the short term there will be some margin and volume impacts of these changes in regulation, but at the end of the day we're going to come out as a much stronger industry delivering much better value to customers.

Social security and pension fund reform are two key strands that the Government has to reshape social security provision and the pensions industry in South Africa. My belief is that what the Government is trying to do is to set up a framework that's really going to carry us for the next 30 or 40 years. So they're thinking long term, not short term. There's a very strong possibility that at the very bottom end of the market in the informal sector, and particularly for people who may be seasonal workers, that the Government may play a very strong role and effectively keep the private sector out of that space. But I think it is an area where in South Africa we're very big on our private public partnerships, and there's a huge opportunity for us to partner Government to leverage some of the things that they do have. For example, they do have the ability probably to have an effective means of collecting funds in that end of the market.

We also think that pension fund reform creates some huge opportunities for us because we think we'll see consolidation and a greater level of member choice. For a company like ourselves with a big retail distribution reach, a strong brand, and a range of asset management capabilities, we think there could be some quite good long run potential in these changes for us.

In the short term, by moving to a boutique structure, which is new to South Africa, we are taking on risk as customers have to learn about a completely new model of asset management. It is a challenge for us in the short term to convince the market that there is a better way to work.

In addition to that, banks pose a very large threat in South Africa because the banks have actually focused very heavily on building integrated offerings to customers. That's why it's absolutely crucial for us to work as a team in South Africa with Nedbank and M&F and to wrap ourselves with as many hooks into all of our customers as we possibly can.

XIII. A Three-phase Plan for Growth

We are transforming our business across a wide range of fronts in South Africa in order to put ourselves at the forefront of the industry. We have developed a three-phase plan to help us through this. We're coming to the end of the first phase of that plan, which has been all about laying the foundation for growth for the future.

1. Phase One

Given the strong shift in market demand to lower margin, market linked, and less capital intensive products, we are very firmly of the view that we have to provide our front facing client units with a full range of investment options for their clients. This shift that's spoken about from 'life to unit trust' is really about a shift from high capital intensive, high margin product, to much more flexible, low capital, fewer guarantees and lower margin product. The change in market demand has caused us to view our business and to analyse into what we call a 'traditional book' or the existing book of business which we're going to allow to run off over time, and a range of new era products designed to be highly competitive, flexible, and with a level of charges in it that's very appealing to customers.

The traditional existing book of business typically has high margins, high capital requirements, and it will run off slowly over time, although the ability of customers to shift to new era products clearly will speed off any run off in that book. Our new era products have been priced taking the current levels of inflation and what we think will be pricing levels that will be attractive to customers going forward into account.

As I said earlier, in most cases we offer our clients an open architected approach to investment, but in the South African market we believe that we also want to provide as many of the options that clients may take as possible. So we've created a range of 12 separate specialised boutiques and we believe we've set them up in a model that can generate consistent, good investment performance over time.

We're continuing to grow our access to market through a variety of channels. We have a total of 4,700 agents split between our commissioned agency force in the retail affluent segment and our salaried adviser force in the retail mass market. We have relationships with 82% of the retail brokers in South Africa. We created in late 2005 the biggest independent network of brokers in South Africa. I think there are 2,700 in that network at the moment. We have a growing and powerful bancassurance partnership with Nedbank that I've spoken about and that focuses on both embedded credit life products and broker distribution.

The Old Mutual brand is one of the strongest in South Africa, but we're investing in it continuously to keep it relevant to the changing customer base in South Africa.

With our focus on lower margins in our new era products it's been very important for us to focus on driving out costs in the back office. Within our service and technology area we've embraced lean manufacturing techniques, which are all about people, process and technology. Rose Keanly will talk in some detail about what we're doing to simultaneously drive service levels up and costs down. We've also found, as I mentioned earlier, that there are good cost synergies for us by working together as a group.

We are also in the early stages of developing our African presence. We have traditionally had some quite interesting positions in some of the markets in Africa and we're taking those more seriously. We do believe we can leverage some of our existing opportunities to grow into select opportunities in the African market.

As we shift from our traditional high capital intensive, high margin products to our much more flexible low margin, low capital intensive products, so we believe we're going to be able to shift back using our boutique structure to a world of positive net client cash flow. But it's going to be critical for us through this phase to drive down and keep both distribution costs and administration costs under control. We do believe that by doing this we can maintain return on capital at attractive levels, much as they have been in recent years.

Our financial results clearly over time will be a blend of the financials of both the traditional book of business and the new era book. We expect to release capital slowly over time and we do expect margins to come down. However, we do think that we can maintain return on capital at good levels.

2. Phase Two

The second phase of our programme is very much about following through in the work that we've done in phase one. We do believe that if we continue to transform the business on the path that we've set we will be able to start getting growth again in net client cash flow. Our boutique model and driving out costs out of the back office, looking for group synergies, are all really important in this phase. We think that in this phase profits will grow modestly because of the transition from the one product set to the other. Capital will be released slowly but return on capital can be maintained at attractive levels.

3. Phase Three

In phase three we believe we will have created a business that has:

- leading customers solutions;
- consistent positive net client cash flow;
- a much increased penetration of the black market;
- the leading brand for savings and wealth management in South Africa;
- the lowest unit cost operations in South Africa;
- and a company that works well as part of the larger group.

I think by this phase we will have seen a substantial shift to our new era products and the financial dynamics will start taking on more of that flavour. We think the profits can start accelerating again rapidly in this phase, with return on capital still up above our 20% hurdle.

At this point, I'm going to hand over to Marshall Rapiya, who's going to talk through what we're doing to capture the Retail Mass market in South Africa.

Marshall Rapiya, Managing Director, Retail Mass Market

I. Introduction

Ladies and gentlemen, good morning. Paul has spoken about the demographic shifts. Within these shifts lie major growth opportunities for us as Old Mutual in South Africa. Today I'd like to give you a flavour about the extent to which Old Mutual has laid a foundation for growth from this segment, and what our plans are to achieve this growth.

II. A Significant Growth Opportunity

The pyramid on this slide shows the structure and the size of the market that we are servicing. The first point to be noted is the sheer size of this total market, comprising some 11 million income earners in total. The top of the triangle is the income segment in which Old Mutual has been successful for 30 years now, currently defined as those 4.1 million individuals who earn between R3,000 a month to R12,000 per month personal income. In this segment Old Mutual currently has a leading 25% market share, with about 60% penetration in the civil service market (Government employees of 1.2 million). We have, over the last year, had a significant growth of 15% compound annual growth over the last 20 years in this space.

I'll talk in a moment about how we have achieved this, but the key point here is that this sub segment is growing rapidly and it is still well under penetrated in our view, so there is still real growth potential going forward.

The 'future' at the bottom of the pyramid is what we call the foundation market, which Paul spoke about earlier on, with some seven million individuals being targeted. This represents in our view a massive market into the future and one that we are in the process of entering.

I feel I should give you just a glimpse of who these customers are; those at the top and the foundation market.

[Video]

That's a taste of the market that I spoke about earlier on. The first one is a typical teacher sitting at the top of the triangle. You get your teachers, nurses and police in South Africa and middle management and clerical staff sitting at the top end of that. The second clip is what we call the foundation market – where we are going to in the future.

III. Growing Incomes

The second chart shows the significant growth in the number of customers in each sub segment. What we are seeing, ladies and gentlemen, in South Africa is the overall increase in personal income levels, especially the level of black customers as Paul alluded to. In other words, while the market is increasing in absolute size, we are also seeing the shift of customers up in the income bands.

So what are the opportunities here in this market? One, the sheer size of the market. Secondly, the upward shifts in income levels. Thirdly, based on our research findings and what the customers keep telling us, their needs are also evolving and changing leading to the demand for broader financial services into the future.

IV. Strong Positioning in Our Current Market

I would like to give you detail about how we are currently succeeding in the top end of the triangle that I spoke about earlier on. Ladies and gentlemen, I want you to believe that our business model is extremely effective, and I think that it is fair to say it has not been successfully emulated by our competitors.

1. Business Model

How does it work?

[Tape turn – break in audio]

… as part of our philosophy in this space and the modus operandi. We are well rooted in South African communities and this gives us an advantage to intimately understand the needs of these customers, then we're able to evolve with them as they grow.

We have very strong relationships with the employers who give us access to these customers, and unions. I'll speak about that in a few minutes.

What do we really offer here? We offer a limited range of focused simple risk and long-term savings products. We have a very simple servicing mechanism and simple to understand products. We have a network of servicing points across South Africa. We have an extensive distribution network spread across the length and breadth of South Africa of some 2,000 tightly managed focused service salespeople, using what we called work site or workplace marketing. We use a phase model that measures viability of each salesperson and each sales branch, so that we're able to meet not only the sales target but also the profit targets at that level. Of course, this is all backed up by a trusted brand that has been embedded in the communities for over the last 30 years

This low cost model has worked extremely well for us, but recently we recognised that we need to grow additional distribution channels so that we can extend our reach into all the corners of South Africa and reach new markets. Today, the independent brokers and direct sales together contribute some 15% of the total business going forward.

2. Brand

I think I ought to say a few words about the Old Mutual brand in these markets. Despite the fact that the Old Mutual brand has been part of the fabric of South Africa over the last 160 years, as Paul mentioned earlier on, we entered this lower income market segment long before developing markets became popular investment destinations. The people who grow the brand are our advisers that I spoke about earlier – a 2,000 plus strong force out there – because they are from those communities and they work in those communities and they understand those communities. We've been with them for a very long time. It is fair to say that Old Mutual is an integral part of these communities, and this gives us a major competitive advantage, and therefore a springboard for future growth.

Also key to our leading position in the work site marketing model. Over the last three decades we have developed strong strategic relationships with employers and trade unions, giving us ready access to our customers in the workplace. This results in ongoing high sales productivity levels and sticky relationships with the end clients.

3. Summary

In short, ladies and gentlemen, we believe this is a finely tuned business model: a focused, simple product, unique distribution model that reaches all the corners of South Africa; focused and tight management; an expansive service mechanism across the country; and a very strong brand. These levers working together give us this exceptional competitive edge, hence the profitable growth we have experienced over the years and the market share that I spoke about earlier on.

So this is where we are today. It is a very strong position from which we can build on for the future and from there we will build on the second and third phase of our journey that Paul spoke about earlier on.

V. Financial Characteristics

I do not want to give you a high level brief of the financials. Of course, I would just like to add some colour to a couple of these, or a summary. As you can see, the premium size in this market is actually low, but we have more than 50% of the total customer base of OMSA retail space. Despite the small premiums the margins are good and of course the ROC is excellent.

The operational efficiency is outstanding. Rose will provide more detail in her section around the maintenance costs.

VI. Growth Levers

Ladies and gentlemen, now to the future. As we have seen, there are major growth opportunities in this market, and we have a strategy for each of the two sub segments. In our current market, as I've said, we command the biggest share of that market, but the penetration of 6% overall, in our view, is still low. We will be building off our strong base, firstly to build our sales force going forward. It is worth noting though that this channel is scaleable, as we have demonstrated in the last three years in which we have grown our salaried sales force by an average of 10 15%.

We will continue to grow the percentage of business derived from the direct market and also the independent brokers.

Importantly though, at the heart of this we will also respond to a growing customer demand for a full range of financial services solutions, and we will offer banking and short term insurance products going forward designed specifically for this market. I spoke earlier on about how we go about doing this. We don't just take this product from the shelf. We go out there and first understand what the needs of the market are, and go beyond just the traditional understanding of the needs, we actually understand the subtle needs. Then we come back and design the products that fit that space, and the delivery mechanism going forward. This is the power behind the model.

In the foundation market, our strategy must obviously be high volume driven, while driving delivery costs down further. Part of this equation must be through the delivery of very simple risk products and long-term savings products, together with the right appropriate banking and short term insurance products. There is a need for this basket of products in the market as well. These products must be delivered through new channels rather than through our foot soldiers, with massive reach and easy access that delivers to the geographic intensity of the distribution in each township and each community in South Africa. To this end we are working very closely with major retailers who have this footprint across the country. We're working with mobile networks and burial societies to produce this new access mechanism to reach these customers in a very cost effective way. This is where the BEE partners are partnering us to get into those communities, and where we have the Imbizos, that Paul spoke about earlier on.

Key to continued success will be the growth and the strength of our brand going forward; the development and the cultivation of this market going forward so that it's ready to receive these products going forward, including financial education. Old Mutual is investing significant amounts of money in this area.

VII. Retail Mass Market Summary

In short, people always ask me: what is your actual competitive advantage in this market? I would say it's not one thing; it's a series of things that work together.

- We have simplicity and effectiveness of our business model that I spoke about earlier on.
- We have an affordable and simple to understand basket of limited products that offer holistic financial solutions and going forward these will include banking products and short term insurance products.
- The breadth of our unique distribution reach and client-servicing network across the country again gives us another advantage in terms of convenience to the customer.
- Our strength of our stakeholder relationships, namely employers and unions to give us access to these customers.
- The strong trusted brand of Old Mutual in this market.
- The strong community networks that I spoke about earlier.
- Finally, the passion of our people to serve this market, of which they are part.

All these work together to give us competitive advantage. Of course, that is overlaid by the incentives to drive this to delivery.

VIII. Targets

What are the targets that we're looking for to 2009?

- We definitely will have a minimum growth in new customers of at least 10% each year. We have demonstrated in the past that we can actually achieve this.
- At least 15% premium growth into the future.
- VNB margin of about 20% per annum going forward.
- Maintaining positive net client cash flows; and finally
- A favourable return on capital, north of 20%.

Ladies and gentlemen, this is a strong and growing business in our view, operating a very effective and perhaps unique business model. But, of course, we're not resting on our laurels. There's even more growth to be had, and we believe we have the right strategy and the right capability to make it happen.

Questions and Answers

Paul Hanratty

Marshall, thanks very much. I don't know if there are a couple of questions that you'd like to ask Marshall about this particular market.

David Danilowitz, JP Morgan

You described the size of the market, and if I'm not mistaken, about five million, roughly, individuals are in some form of burial society or social scheme. I'm not sure if you have stats on that to confirm or deny that. How are you going to take the money currently in this social scheme and move that money to Old Mutual's balance sheet?

Marshall Rapiya

It's a very good question. Actually the burial societies are in the foundation market. In the last 18 months we have been playing in that space. What we're actually doing is we're partnering with those burial societies, and moving forward we actually see that partnership going from strength to strength.

One of the key challenges in a burial society of course is that given the challenges they're going through around mortality rates they actually find it very difficult to price for the mortality experience. We actually come in as a value add and work together with them as partners going forward. We are moving with that forward in the future. Again, it gives us these volumes that I was talking about earlier.

David Danilowitz

There's one more question. You mentioned a target margin of 20% in your area of the market. Where are you currently?

Paul Hanratty

David, I think it's fair to say that our margins are really high in this market. They're at the top end of our range and I think we can probably take it offline if you want more detail. Are there any more questions for Marshall? Okay, if not, thanks Marshall very much indeed. I will hand over to Mike Harper to talk about the retail affluent market.

Maintaining A Strong Position In the Retail Affluent Market: Servicing Buppies and Boomers

Mike Harper, Managing Director, Retail Affluent Market

I. Introduction

Paul has covered the group strategy and Marshall has given you some idea of the mass market. The retail strategy emphasis that Paul alluded to earlier is around efficient distribution and access to clients savings and investments needs. So for us in this segment it's about growth, it's about access, it's about more advisers and more efficient penetration. That's where we've put our emphasis over the last few years.

Before I get into details around the strategy itself, there are two segments in this market that actually take up most of our thought and time and that we focus on. I think it's worthwhile spending a bit of time on those two segments. The first is the so-called 'buppies' segment; buppies being black urban younger middle class consumers. They're entering the market in huge numbers. The second one that I want to spend some time on is the 'boomer' market; the so-called baby boomers, which you know. In the South African market because of our legacy they are mainly white consumers.

II. The Market

1. Buppies

Looking at the buppies, this is a fast growing segment; some 7% growth through to 2010. About 2.1 million consumers, but another half a million are going to enter this market over the three to four years ahead. They're buying consumables, fast moving consumer goods, white goods, and they have easy access to finance and they have an income. About half of this market, about one million consumers, are black consumers and these in particular, and Paul alluded to that, are younger but they're acquiring debt – personal loans, mortgage finance, vehicle finance. We do mostly credit life, savings and investment and whole life business with them. They go to their banks for finance, but for savings, investment and risk they rely on financial advisers, and financial advisers do the distribution and advice.

The relationships in this market are absolutely key, and Marshall alluded to some of that. The way they build relationships with advisers and advisers with them and the way they get advice creates a huge opportunity for us in the recurring premium market.

2. Baby boomers

The baby boomer market is equally important. As I said, there are more white consumers. There are very similar characteristics to the baby boomers in the UK, Europe and the US, and many of them, in our market in particular, are starting to retire. There are about 1.6 million whites over the age of 40 and they're going to live longer than previous generations. Recent LIMRA research has shown that this group of consumers have grown increasingly more insecure and need more advice around their own investments; in particular, advice and solutions for capital accumulation, management of their capital, retirement provision, and managing their income at retirement and beyond.

So we see this as a single premium market: life and non-life, and a significant opportunity. It's going to remain so for years to come. In essence, this is the group who are controlling the access

to most of the current stock of savings in the country. They also rely incredibly heavily on their financial advisers.

III. How We Have Been Competing

We've been competing in this market by offering a broad waterfront range of meeting of needs. We offer investments, life, mortgages, deposits, health and short-term products. These are all aimed at particular customer needs. We target five specific ones. We deliver them through a mix of channels, which we carefully select. If you look at the pie chart: about a third of our sales are through a tied agency force; a third through independent financial advisers, which include the Masthead broker network and bank brokers; some 16% through bancassurance, specifically with Nedbank; and the balance through wholesale unit trusts onto retail platforms and direct sales to our existing client base.

We have placed particular emphasis over the past eight years on reducing distribution and administration costs to make these new era offerings more competitive. In addition to that we're focusing on the agency force and driving their productivity up.

Marshall spoke about brands in the mass market. It's equally true in the affluent market. We're trusted by clients and intermediaries and we're well regarded by them. We've delivered some 13% compound growth in APE over the past five years and have a strong 23% market share of life new business.

In a nutshell, in this segment it's about a broad offering and a strong distribution franchise.

IV. Financial Characteristics – Key Metrics in 2006

Just to give some context in the financial metrics, of the 2.1 million consumers we spoke about, we have a base of 1.4 million. We have good new client acquisition in this market.

Average assets under management are substantially higher per client than the mass market, and average premiums in force are just over double that of the mass market.

Total sales of life and non-life business in 2006 was an APE of some R4,4 billion, 16% of that coming from bancassurance with Nedbank.

Our VNB margin for life business was 12% for 2006, and that's below our target range. It is driven by a product shift to lower margin business, as well as our investments into channels.

The return on capital is very healthy, and the low retail policy maintenance costs will be covered by Rose in more detail.

V. Growth Levers

Off the backdrop of that financial picture I want to talk about the levers we're using to address growth. I mentioned at the outset this focus on acquisition and cross selling through distribution, but it is a key focus of ours combined with product innovation and the use of these multiple channels to get to market.

Our acquisition is targeted at mass affluent customers; these young urban blacks entering the market and earning good incomes for the first time for many of them. We achieved 115,000 new customer growth last year, half of which was black clients. We have similar plans for this year and going forward.

We do expect that new regulations will impact on adviser entrants into the market during 2007 and 2008, and we also have been concerned about the loss of established advisers through early exit and retirement.

On top of that, we have an aggressive retention and penetration strategy into our existing base of affluent customers, targeting cross sell of some 370,000 in 2007, which we're on track to achieve.

We're also looking at increasing our product holding per customer from levels of 2.3 to three per customer by the end of 2009. Our proposition to these customers is straightforward: we'll meet their core needs through better price and more flexible products. We keep enhancing the investment and retirement product range, such as the very successful launch of a new generation Max investment product in 2005 and that it is still selling very strongly. The New investments range first quarter of 2008 will replace Max and it's time to deal with two things: the change of commission regulations, and to embrace the boutique strategy that Thabo and his team will be talking to you about later. Finally, we will do so by face-to-face distribution through 2,700 tied agents, and 8,200 networked or independent and in bank advisers, as well as our targeted bancassurance channels.

The channels have had to become increasingly more efficient as regulation has tightened – pressures on costs, time to sell, similar impacts that you've seen in the UK and other markets around the world. They have to jack up their act to stay in business. For many of those advisers it's a huge challenge.

VI. Distribution Channel Economics

But if you look at our economics, they've been improving since demutualisation. Notwithstanding the pressure on costs, the regulation, and the lower margin products, the channels in coping with all that have been able to drive those costs down as a percentage of APE. We are targeting a level below 70%.

Talking about the agency force we remain committed to that, notwithstanding the economic challenges. The UK and Australian life assurers that we've spoken to all regret exiting theirs or downsizing them. The cost base driven to 2002 initially came at the price of a loss of market share as well as our ability to grow new black advisers, that is key. Since 2003, we have rebuilt the adviser force by 400 within that cost base line. All of our advisers and independent brokers have had to write several sets of exams over the past few years to meet new fit and proper requirements. Imagine going back to school at 65 years old! We are experiencing growing APE per agent, and agency productivity has also been growing.

The morale in our field remains very high and that's driven by the kind of work we're doing in helping build practices, driving in practice management and getting back to their client. So the economics remain a challenge with new recruits, but we have to keep building to introduce younger and predominantly black advisers to capture the black consumer and provide them with advice. The segment is growing but it does require extensive advice.

The independent financial advisers cost base is driven by the establishment of Masthead and the start up costs. That spike was really around that and the change in business mix in 2003 and 2004. The established adviser market is also driving to overcome these regulatory effects, but it's an ageing market and it's a largely white adviser base and they service predominantly the baby boomers.

The drive to even lower costs in the IFA or broker channel is off the back of this establishment of Masthead, the largest independent IFA network in South Africa. We have contracts with 2,400 of the 2,700 advisers in that network. It gives us scale, enables us to retain advisers and enables us to create great ability to influence the way they run their own practices. There's an extensive amount of practice development and coaching that happens with that channel. We capitalised and set up the business, but we are in the process of bringing in the other life companies as shareholders. Our overall costs per channel are planned to drop over the three year period ahead to below our current levels.

VII. Distribution – Bancassurance

Turning to bancassurance, it's the final aspect of distribution that I want to touch on this morning. If you look at the bank brokerages they offer reach but there's less control over what they sell for us. All of the banks have their own investment platforms, so our strategy with the banks has been to ensure that we get wholesale funds onto their platforms, or sales of niche products, like our offshore life product, OMI, and to focus on life recurring risk business.

Nedbank financial planners are by far our strongest supporters and give us some 60% of their share of flow. The 1,800 other bank brokers give us a low proportion of their total flow, but a good share of the free float and they generate a good margin on the risk business we do with them. They are also big supporters of our offshore life product.

We have a concept of intermediary friendly banking, and that's to enable banking relationships with advisers to be leveraged. It gives them greater cross sell into their own client base, offering mortgages and deposits but without the risk that the bank sales staff will poach the adviser's clients. So the advisers, in operating in this way become more secure and that enables them to offer a broader financial planning solution to their clients. We have had good flows of mortgage business through this channel, just over R1 billion for the last year.

The last aspect of bancassurance is our strategy with Nedbank, our banking partners. There we focus on using our group capabilities to target the mass market, the middle and high-income market and the high net worth market. The chart shows the progress on these three major initiatives: credit life; the bank planners; and the private client business.

First, the credit life business. It's a joint venture aimed at the retail mass-market base of the bank. It has grown strongly over the past three years, and particularly in the last two years off the back of personal loans selling embedded credit life to that client base.

The Nedbank broker force has grown to some 330 planners over the past two years. It's aimed at the middle and high-income market, and I've already spoken quite a bit about that. Those bank planners write a high volume of single premium business as well as good risk repeat flow. Most of their risk business, some 90%, is placed with Old Mutual.

Finally, the private client joint venture. BOE is one of the oldest brand franchises in South Africa amongst the wealthy clients. That's grown very strongly in net client cash flow terms over the last five years. It was acquired together with Nedbank, a 50/50 joint venture, and unashamedly aimed at the top end of the high net worth market. It's a broad mix of fiduciary, structured lending, private client stock-broking and investment services and products. Their latest enhancement is a branded range of transaction banking products to their client base.

Our overall approach to retail bancassurance is focused, it's niche and it's targeted to specifically identified markets or through specifically identified channels if the bank is non–aligned.

VIII. Summary

Overall, a broad waterfront approach to this market. Our competitive advantage is the breadth of offering delivered through these carefully segmented channels but maintaining scale and product innovation in each of those channels.

The key drivers here are the agency force to capture black clients but also ensuring that we are driving efficiency in each of those channels. The productivity of the channels, new product launches, and the launch and integration of the new investment boutique offerings are the opportunities that lie ahead for us.

Our growth targets are on track to deliver the new client acquisition of some 115,000 per annum and to increase our average product holdings to three products by 2009.

Our margin is targeted in the 15 to 20% range, and that's driven by improving the channel economics, the business mix and our admin efficiencies, as well as the lowered cost per policy.

We believe we're strongly positioned to continue the growth in the opportunities that lie ahead in those two specific market segments: the black middle-income consumer, and the baby boomer market.

Thank you. Are there any questions?

Questions and Answers

Paul Hanratty

Mike, thanks very much indeed. I don't know if there are any questions for Mike. I must just warn you that you have this chance and 'tea', because unfortunately he has to run back to our broker guys who are on convention. So we really just have this opportunity to grill him.

Greig Patterson, KBW

Just a quick question. About two years ago, you spoke to your competitors in the market. You had a bad reputation with the IFAs, and I believe that has improved of late. Do you want to give us where you stand in your mind in the league tables in terms of the IFAs' perceptions of Old Mutual?

Mike Harper

I think we've had very good support from the IFAs recently. The IFA market is about maintaining close personal relationships with the independent brokers in that market. There's no question that Masthead has helped enormously with both the reputational issue and the delivery from them. I touched a bit on the work we've been doing with practice management. What Masthead does, and strongly now by Old Mutual and some of the other life companies, is that they hold member days. I've just recently done a roadshow around the country visiting some of the member days. We will pull more independent brokers to any form of product launch or innovation through Masthead than we've ever been able to do individually. At a reputational level the recognition of Old Mutual's role in keeping that market alive is now well established among brokers. They're able to manage the brand franchise, if you like, of that Masthead network itself very strongly.

Paul Hanratty

I think, Mike, isn't it fair to say as well though that our service levels have improved dramatically? Rose will show you that actually in the broker market we are now the top rated company for service in South Africa.

Michael Christellis, UBS

What would your response be to the comment that your so-called buppies or your 'black diamonds' are very new to money? It's new money to them and they're almost in a 'dis saving' dynamic where their current tendency is to spend and not save. Old Mutual's trying to position itself as a key savings market player. I understand you'll get some on the protection side on the Nedbank credit side, but how are you going to target that market where the tendency is just to spend, spend, spend?

Mike Harper

That's why it's so important to have face-to-face advice in this area. In terms of the 2,700 advisers that we have in the field at the moment, half of those advisers are black advisers. Most of the new business that they're doing in the market is in the middle-income black consumer market. They're doing both life risk recurring as well as savings recurring business. So our experience has been that we're seeing pretty good flow on both sides out of that. But clearly financial advice is key. Left to their own devices the consumers in this particular market will spend the money – there's no question about it.

It's going to take a while before we get the real power of that growth, but we are seeing our acquisition of new customers is pretty much in that market at the rate of half the acquisition that we're doing. I'm confident that with advice they will save and we've seen a big swing to it over the last year or two now.

Paul Hanratty

Mike, would you mind if I just added something? I came to South Africa in 1984 and started work. The one thing that struck me very early is that if you looked in our client base, Afrikaans customers saved on average more than English speaking customers in the white population. The fascinating thing is I started with the same preconception that you sort of alluded to, that black customers are busy spending so they won't save. Actually if you look in our stats, and Mike will give you the exact numbers, if you get a young black person and a young white person and the same income level, those black customers are saving on average more than the equivalent white customer. So they've actually got a good attitude to saving, which for me was quite an insight that I took. You will have the exact numbers, but it's quite true.

Mike Harper

That's quite true. Our black consumers, the average investment, or the average recurring premium from our black consumer base new client, is higher than that from the white consumer base, and it's obviously higher than the levels of the average across the entire base.

Blair Stewart, Merrill Lynch

Just the shift away from traditional savings products towards unit trusts. To what extent are you able to leverage off the expertise in the multi manager and unit linked platforms that we had heard from the Skandia presentation yesterday? Has it been a transfer of knowledge from one part of the group to the other?

Mike Harper

I guess we do fairly similar things and have been doing in South Africa to what the Skandia guys have been doing here in the UK. The platform that they're busy integrating into Skandia is in fact the South African platform. The software that they're using, and Rose will allude to it later, in terms of partnership within the group has been driven off the back of developments that we did for Selestia here. So I think there's quite a common understanding of that market and those platforms. What is true is that we are doing work with both Skandia and our US life business to understand what products and what platforms work for the different markets and how that shift is taking place.

I guess the other learning is the fact the impact it has on your profitability and how you get to market more cost effectively, because that's the other big dynamic with this shift. You've got to drive your cost base down to continue to deliver that product set to the customer. We offer in South Africa life and non-life open architecture platforms with a choice of funds underneath it. We have seen a big swing and a big growth in our non-life, what we'd call 'as and when', as opposed to contractual recurring endowment type products. That's still growing very, very strongly. In fact, we're encouraging more of the brokers to give advice, to move their clients into that shape because it both enables the adviser to run his practice for longer and you're giving better advice to the client because it offers more flexibility. So there's been a big swing in South Africa to that as well.

Blair Stewart

Just a second question if I can. It goes back I guess slightly to the previous presentation on the mass market. I'm assuming that as a group in South Africa you're short longevity risk. Could you maybe talk a

little bit about how you price mortality and particularly as you move down the income scale how you treat things like AIDs?

Mike Harper

I'll probably chuck that to Peter or Paul.

Paul Hanratty

Blair, I'm happy to talk about that. Let's start on the life side if that's okay with you, then we'll talk about the annuity market, which is the longevity side secondly. We'll start in Marshall's market. Typically there we don't do any underwriting or HIV testing. I think you probably know that the actuarial society in South Africa is probably, I think, the leader in the world in driving models of the AIDs pandemic and how it's going to impact. Those models, which were developed quite a number of years ago, are absolutely spot on in terms of their predictions.

In Marshall's market what we've done is we basically priced in for the epidemic. Most of the products, if not all of them, have the ability for us to review premiums if we need to. But actually consistently we're finding that the number of deaths from AIDs is slightly below what we've priced in and we're getting a little bit of margin coming out every year. So basically it's priced in.

When you get into Mike's market it's a different ball game. There we've over the years had an approach to underwriting, which is effectively 'summer shirt' or cover, and AIDs related. So for a guy of your age with lots of cover, you'd be getting an HIV test quite early on. The cost of HIV tests has also come down, so that's been factored in. We test actually almost everybody who takes out life cover. I think the one interesting thing as well is in the early stages of a pandemic when infection rates in the population as a whole are low, an HIV test itself gives you very little information about the risk status of that individual. But by the time you get into a stage of the pandemic where there's a high level of risk in the population, if we give someone a test and they're clear, and they're over the age of 23 or 24, you've got a pretty good insight. So actually ironically premium rates if you're testing will actually come down slightly over time.

We've priced into our products both the fact that we're testing and the anticipated move through the population. If you're familiar with the Actuarial Society model it's based on the concept of those at risk and those not at risk. Again, our pricing has been basically spot on. Some of the disability products we have exclusions, so age exclusions, but we've taken those out recently. We're not finding them necessary.

Maybe the last thing is that a number of years ago we developed products where people could have repeat testing and we charged lower premiums. There was never a real take up of that.

On the longevity and the annuities side, we've always been pretty conservative in terms of building improvements for mortality. Again, our experience on our annuity book has been pretty much always a little bit better than we've priced them. Mortality is something we watch pretty tightly actually.

Participant

[Off microphone] … on the group side.

Paul Hanratty

Okay. Sorry, we're now going to descend into a little bit of technicality. When we demutualised, we set up a set of profit sharing rules that determines very clearly what margins the shareholders get and what margins the customers get. Broadly speaking, as a broad generalisation, we essentially take a charge for

the capital in our products. Pretty much across the board the shareholder takes expense and mortality risk. But on our big with profit group annuities, it is the one product line where we leave the mortality risk, the longevity risk, with the customer. So in setting our bonus rates every year we look at obviously underlying returns; we take off our capital charge and we factor in deviations in mortality experience from the pricing base. That is the one area where both the size of the business and the pier we had of an inability to price that risk led us to leave that risk with the customers.

Greig Patterson

Just on that longevity. There are two questions. With the longevity obviously you have a big block of non-profit bulk annuities that you've sold as well. The white population where there's a lot of exposure is an ageing population. Are you still making money on those? Are the margins coming down?

Paul Hanratty

The point I explained is basically we priced in for improvements and we've always used the most up to date experience and we monitor experience very, very tightly. There are margins coming through there consistently on the mortality side. So I'm not worried unless there's some miracle invented to make us all live longer.

Greig Patterson

That's what they're concerned about in the UK. The other issue, I missed the first part, and I actually had a bit of a slide on the social security of the Government. I don't know if you've touched or want to speak about the impact or the risk to group schemes of eliminating that market on the savings side, or pensions side. The second thing is I noticed there were some clauses about protection as well, providing universal protection. Is that risk to the funeral business in the group schemes or the mortgage protection business in the sort of middle market?

Jim Sutcliffe

Can I suggest we break for tea otherwise we're going to run behind? We can pick up that question at the end, Greig, if you don't mind.

Paul Hanratty

Maybe Tim or Peter De Beyer might be the best person to answer the social security question. Shall we take a tea break?

[Adjournment]

Paul Hanratty

Welcome back from tea. It's quite appropriate you see a lot of scenes of Cape Town because we're going to hear from Tim Cumming and Thabo, much of which is about our asset management business, which we have left in Cape Town, because in South Africa that's the heart of asset management. So I'm going to hand over to Tim Cumming, who runs our corporate segment, to talk to you.

Leveraging Our Multi Boutique Asset Management Capability in the Corporate Market

Tim Cumming, Managing Director, Corporate Segment

I. Introduction

Good morning ladies and gentlemen. Whilst you mentioned Cape Town, I have recently moved back to Johannesburg because whilst I'm responsible for the corporate market that's where most of the corporate stuff is. Thabo still has the good fortune of remaining in Cape Town.

Paul's already touched on some of the key issues in terms of opportunities for the corporate segment in South Africa, but let me give you a bit of a focused look into this market in the time we have allotted. What I'm going to give you in the next 15 minutes or so is an overview of the corporate market as it is. Some of the key trends I'll touch on, as well as some insight into our share of the various parts of that market, and then an indication of some of the ways that we're working towards growing and adding shareholder value.

II. A Growing and Competitive Corporate Market

So, to touch on the market first, focusing between the large segment of the market and the small and medium segment of the market. The occupational pensions market in South Africa is characterised by a voluntary contribution system of retirement and risk benefit provision across the formal employment sector. Even though it's voluntary, it has a fairly comprehensive coverage, but more so in the larger employer groups than amongst the smaller ones. In addition, there's also extensive coverage of benefits to members of the trade union groups.

It is estimated that about half of the working population in South Africa provides for retirement in one form or another. There are about eight million active members of pension funds and benefit schemes, including government employees. Within the formal sector it's estimated that gives a coverage of somewhere between 70% and 85% of employees making contributions. As Paul has already mentioned, assets are expected to grow steadily as levels of employment in South Africa as well as the income per capita continue to grow.

However, as we all know, it is typically in the small and medium size enterprise space in most economies from which you see the real growth in employment. It's this sector which offers increasing opportunities for us in South Africa, especially because it's not one that Old Mutual has traditionally targeted as much as the large corporate segment.

The SME sector accounts for about 60% of workers in formal employment and is made up of tens of thousands of businesses. But only a little over 10% of these businesses actually have some formal retirement and benefits arrangements for their employees; that's excluding any personal retirement annuities that individuals might have. So coverage is expected to grow in this space, especially also given the potential changes that might come along with retirement fund reform as we increase levels of savings in South Africa. We plan to accommodate a large part of that growth in Old Mutual.

III. Key Influencing Factors

Time does not permit me to go into a long explanation of the various trends and the influences in the corporate market, but for purposes of reference, I've jotted down a number of points on this slide. The

client trends and the competitive forces I'm not going to go into too much detail on because there are so many things in the South African market that you would be familiar with in the developed markets.

On the regulatory front there are two things I'd like to point to that will have important effects. Firstly, as I already mentioned, we expect to see a substantial increase in the levels of savings and provision for retirement and old age through the mooted retirement fund reform initiatives that are still under discussion and may well take well into 2010 and the next decade to fully come to fruition. But that will have a big impact in our industry.

Secondly, we also expect to see some consolidation of the smaller funds as well as an increased use of umbrella structures, such as the ones we have in Old Mutual, as the trustees respond to the effects of increased accountability through the changes, such as the removal of audit exempt status for the smaller funds. We see both these developments as opportunities for us in South Africa.

As I mentioned earlier, in terms of client trends and competitive issues, a lot of the same things that you see in the developed economies are happening in South Africa. I won't go into detail, but increased sophistication in asset management mandates, the search for alpha, the quest for value for money, absolute returns and outcome-based mandates are becoming more common. Financial consumerism, the need for transparency, disclosure, openness, open architecture, choice, multi management, and also then the convergence of players in the financial services universe. These are all things that are happening in South Africa just as they've happened around the world.

We believe that Old Mutual's breadth and depth of resources, as well as our ability to be able to look into and borrow and learn from the experiences of our sister companies elsewhere in the world, put us in a good position to be able to address and adapt as those changes come into place.

IV. Room For Growth

So much for the trends in the South African market, this next slide gives you a little bit of insight into the approximate size of the variety of products in the corporate space. It's a detailed slide and I don't intend to go to it in any great length.

Essentially what it shows is an array of products in the corporate market, be they investment, pensions, administration and risk. Each product has been reduced down to 100 units and in the bar at the top it shows the size in Rand terms or numbers of members of that particular product. The grey bar with the number in it shows Old Mutual's share of that market.

The reason I show this is that I just want to leave you with an appreciation of the fact that whilst Old Mutual's market share is actually very large in one or two areas, most notably in the corporate space and the guaranteed investment space, it is not as large as people sometimes imagine in other areas. Our market share is not yet as large in the area of multi management as well as single mandate funds, and those are both very important areas in our space. Clearly, it affords us considerable headroom as well as opportunity for further growth, especially given the new structures that we have in our distribution model and within the mixer, which Thabo will talk about.

V. Financial Services Company

Again, I don't want you to try to read the detail on this slide, but the reason I'm showing this slide to you is to illustrate why I believe that Old Mutual is actually poorly appreciated as a financial services provider in South Africa, and for which we've been responding strategically through the changes we've made to our

client servicing and sales model. Typically, people tend to think of Old Mutual as just a life company. However, our research in the company market is that we are in fact a financial services business, but we just happen to have a life licence that enables us to do certain things in the product space that other service providers are unable to do

This particular slide is an extraction from our corporate marketing materials. What it displays in those bars in green across the top are all of the financial service solutions that any corporate or institutional entity might possibly want. What is listed in those columns, and I won't go into the detail of them, are a range of financial services all of which are available largely through Old Mutual but also through Nedbank and M&F.

Our business model in the distribution arm of the corporate segment has been to engage and deploy a range of what we call segment heads and key account managers. These were functions and positions that we didn't used to have a couple of years ago. They're more generalists than specialists. Their sole focus is to aim at finding solutions and building deep relationships with our clients rather than having a product push approach, and then find ways of suggesting to those corporate clients as to how our group would be able to meet their solutions. No other financial services group in South Africa has this breadth in the corporate market nor the structures to deliver to it.

In addition I would like to add one thing. One should always remember that all corporates and institutions are, at one level, only aggregations of individuals, be they the members, be they the employees, or indeed be they the customers of those corporates. Our new corporate distribution model is aimed at using the trust and the appreciation for our services that we can develop with the corporates to allow access through that for the retail arms of Old Mutual. In a sense and in a word, it's the 'retailisation' of our corporate relationships.

VI. Financial Characteristics

Just to touch on a few of the financial characteristics. Remember when I talk about the corporate segment I'm talking about both the life wrapped type business as well as the market linked OMIGSA investment mandates.

Funds under management in the corporate space are about R171 billion, and the members under administration are a little over R0.5 million.

The VNB margin of the life book – and these figures are for 2006 – was an attractive 24%, but I must point out that that's a very variable figure in the corporate space just depending on the type of business you write in any particular year.

The net client cash flow as a percentage of funds under management in 2006 was strongly negative for two important reasons. One, significantly, was that towards the end of last year the PIC, who manages the Government pension fund money, restructured the way that they were managing their funds and withdrew a very large sum of assets that were being managed by OMIGSA up until then. But in addition, there had been continued outflows from the guaranteed fund, which we would label as a traditional product, and that has been an ongoing trend of negative cash flows in that space.

However, I just want to say at this point, and Paul had talked about traditional and new era, there is in your pack some information on the range of funds called the 'absolute growth' portfolios. This is our new era version of the guaranteed fund. I won't go into the detail now; you can look through those packs in your own time. Just suffice to say that I've been absolutely delighted by the response of consultants and clients towards this particular product as a new idea and a new opportunity in that new space, especially because many of the consultants were arch proponents against the guaranteed fund. We're confident that through

this and the other work that Thabo will talk about, that we will get our new client cash flow into strong positive territory over the next couple of years.

Finally, the return on capital for the corporate segment as a whole is good. This is a combination between the life wrapped side of the employee benefits as well as the OMIGSA side. The return on capital in the asset management business, as you well know, is normally fairly exceptional, especially because there's so little capital in those businesses. If you combine the two: on the life side we have a very acceptable return on capital, but in the corporate space our return on capital in the life space is not quite as attractive as it is in the retail space, which underscores the reason why 'retailisation' and the unlocking of the corporate relationships for retail is another way that we can add value.

VII. Strategies For Growth

Can we just turn then to strategies for growth? Clearly, there are many strategies but I've tried to characterise them very simply into three particular areas.

Firstly, those things we are doing to extract further value from our existing clients – those are our retention strategies, then naturally there are those things we're doing to seek further growth, either off our existing base or brand new growth for us. Then, lastly, as I've touched on, 'retailisation' – the things that we are doing to unlock the corporate relationships at the retail end.

VIII. Main Growth Levers

On this slide I've just set out five of those particular strategies, or the large groups. It's by no means a comprehensive list but I think it does capture the main levers for growth that we're working on in our business activities and plans.

1. New Era Products

Firstly, I've talked about the new era products a little bit, but as has been indicated earlier by my colleagues, we've been refocusing our efforts towards these products, which are more commonly preferred in the main sectors of the market today and which we are well positioned to offer. This does not mean that we are abandoning existing clients who are invested in, or committed to, some of the traditional products that we have, as we are in fact improving the disclosures and value for money of those products as well. What it does mean, as Paul has explained, is that we're expecting to see and we'll be planning to sell products, which have more market exposure, less smoothing and/or lower levels of guarantees. While these products typically have lower margins they also have considerably lower levels or no capital backing at all. Gradually over time you will see that the lower profits will be compensated for by improvement in return on capital, as we are able gradually to return capital to the centre.

The new era products are also offering our existing clients an opportunity to migrate from where they are, rather than risk losing them, and also affords us a new platform for new growth.

2. Redesign of Distribution Strategy

Secondly, our distribution strategy and the redesign of that. The main shift here has been shifting from a product push approach to a solution seeking approach for our clients. We aim to build strategic relationships with corporates so that we are in a better position to identify a broader range of solutions for their various financial needs and be in a position to fulfil those needs from the

group. Special attention and resources are being applied to the SME sector where we've not operated much before.
In addition, this approach creates more opportunities to secure access to the individuals that comprise those corporate business, again 'retailisation'.

3. Boutiques

Thirdly, there is what I refer to as the 'boutiquisation' of our asset management business. Thabo's going to talk about that in more detail in a moment. This has been an essential step in order for us to better position and deliver OMSA's wide range of specialist investment capabilities, which under the old OMAM group were less appreciated or less well understood than they should have been.

These are specialist mandate capabilities that are widely sought after in a world of open architecture and in a world which often prefers to package together multi managed solutions from an array of specialist, high performing alpha generators – characteristics which are very important in the DC market as well as member level investment choice.

The corporate distribution team within the corporate segment is the key channel through which these capabilities are sold and driven in that market, both to the intermediaries (the consultants), as well as to the direct client markets, the end client.

4. EB Administration Platform

Fourthly, Rose will touch on this in more detail, but our EB admin platform is highly regarded. We have size and scale on that space and we still have room to move to reduce costs further, but our strategy is to win more administration business and build the membership base off that platform from which to cross sell business, either to the corporate space or the retail space.

5. Cross Sell Strategies with Nedbank and M&F

Finally, it's important to mention the strategies we have for cross sell with Nedbank, and to a lesser extent, with M&F.

In the corporate space, the essential ingredients for success lie in relationships. Both Nedbank and Old Mutual have extensive breadth and depth of relationships but, surprisingly, our overlap is relatively small. It gives us a great opportunity to leverage those respective relationships between ourselves and that's part of the reason of the move of a number of our executives into the Johannesburg area to work more closely with the Nedbank team. We can do that for our mutual benefit and secure further business for each other.

One area worth mentioning again is in particular Nedbank's extensive group of what they call 'business bankers' whose focus is that SME sector. That's a very valuable base for us to get further access into the SME market and penetrate that growing market.

IX. Corporate Summary

1. Competitive Advantages

In conclusion, our competitive advantages – a number of points.

- Firstly, our breadth of offerings as a broad based financial services provider and the opportunities that we have to leverage those relationships with our sister companies. That puts us in a very strong position.

- Secondly, our advantage comes from the investment in and the commitment to the new solutions driven distribution model we have to better deepen and leverage relationships and opportunities in the corporate market.

- Thirdly, our advantage comes from our ability to use capital to back investment and risk products, whereas some of our competitors don't, and the innovation that we have in designing and managing suitable products and compelling offerings.

- Fourthly, linked to the third point, the advantage that we have through our size and scale, both in terms of the pricing advantages it gives us as well as being able to afford the resources that we need to drive that innovation.

- Fifthly, our new EB admin platform offers clients first class customer servicing and gives us operational leverage for further cross sell.

- Last, but not least, the value of the Old Mutual brand is very important in the corporate space in supporting the selection of Old Mutual options in a world of open architecture and in member level investment choice.

2. Targets Going Forward

The levers for growth I've already touched on in the last slide, so I will not go back over those. Let me just close then on some indication of targets looking forward. We have plans and we're working towards getting back to a nice positive net client cash flow.

Although we have a VNB margin in excess of this already we would be targeting a VNB margin on average in the 15 20% per annum area.

A return on capital in excess of 20%, which given that this includes the OMIGSA side, and as I've said before return on capital in the asset management space is normally excellent, that's an easily achievable target.

Last but not least, we want to ensure that our EB admin cost per member is at or below global benchmark levels for that business.

With that, I'm happy to take questions.

Questions and Answers

Paul Hanratty

Tim, thanks very much. I don't know if there are any questions for Tim.

Raghu Hariharan, Foxpit

I just have a couple of questions please. On slide 40 you showed us the different segments that you're in. I was wondering, to enable you to achieve your targets – I understand you are a waterfront provider – are there two or three segments that you would pick and choose and say these are the segments which will be make or break for you in terms of achieving your targets?

Tim Cumming

There are two areas. The one going back to retention versus growth, it's making sure that in the guaranteed space where we're already large that we're able to defend and retain our position even though there's a shift from the traditional to the new era, the absolute growth portfolios.

The second one, and Thabo can answer this more specifically, is making sure that in the asset management space, particularly both in single mandates as well as in the multi manager space… If I look at the multi management space, there are only four multi managers in South Africa of significance, and we aren't anywhere near where we ought to be as a group. SYmmETRY has some fantastic investment returns and that multi management space alongside the single mandate space are key areas for growth for us in South Africa.

Raghu Hariharan, Foxpit

On the back book itself, obviously retention is key. Can you give us a flavour of what drives retention and what retention rates you are seeing? Are there any legal and/or regulatory barriers that will prevent these books being churned basically?

Tim Cumming

I think churn is more of an issue for the retail market. There's no regulatory barrier for prohibiting or preventing a client migrating or just terminating where they're at. I think that whilst in the guaranteed funds space there has been net client outflows for a good while now, a large part of that has been driven and influenced by the consultant community. Firstly, because the consultants don't necessarily see where the one size, or one shape fits all solution works within their multi managed solutions for clients. Secondly, also they've struggled with issues of transparency and cost, so the perceptions have been poor around that.

If we look into our pipeline and we look at clients at risk – that's clearly what people do in the distribution space – it's safe to say that pretty much all those clients who wanted to leave from the guaranteed fund, have. I'm not saying that they won't continue to. This is not like a new trend. Given the levels of the markets and where they are at the moment, there's always the possibility with higher-level bonus smoothing accounts for people to say 'We're not going to leave just yet'. I think we're in a very strong position now for those people who do want to leave to say rather than leave and go into some kind of segmented mandate that we've got this new absolute growth portfolio for you.

Do you want to add to that Paul?

Paul Hanratty

I think that's right. I think in the corporate side there's no regulatory barriers to moving other than consultants obviously have to give professional advice. On the retail side there are significant impediments to churning because they have to go through an advice process. Typically, there's a cost to a client from exiting an existing product.

I think Tim is right. The new era products in the guaranteed fund space, what clients can do is to switch across from where they are in the guaranteed fund to the new absolute return fund products and they can take their bonus smoothing account share with them. So it's very attractive to make that switch across.

Greig Patterson

Jim mentioned earlier on in the year that the bulk annuity pipeline had sort of deteriorated relative to expectations that existed in the prior year. I wonder if you can give us some colour on that or some of the reasons why that has occurred so we have some insight into what's happening there.

Paul Hanratty

Sorry, Greg, I'm not quite sure. You said Jim said something?

Greig Patterson

Yes, twice he's on record saying that.

Jim Sutcliffe

The point was that when we were asked, I think at the year-end it was, or perhaps at the quarter end, when you look at the sales of the high margin with profit annuity business, it comes in lumps. We were asked whether it was going to get better in the second half of the year, and I said 'Don't hold your breath'.

Tim Cumming

I think you gave the right answer, Jim.

Paul Hanratty

Look, it is lumpy business and every time you get it, it's great to get it, but it's not something that's easy to predict. The timeframe between discussing it with a client and it eventually coming through is also very long, so to start making any predictions on quarters or halves is not really appropriate.

Question from the Floor

Just a question on the cross selling with Nedbank. You mentioned that moving executives to Johannesburg is going to help with that. Can you just give us a feel for why you haven't done this in the past? Why you haven't been hugely successful at cross selling to Nedbank in the past, and why it's suddenly going to change in the future.

Tim Cumming

Why we haven't been hugely successful in the past is because we didn't try it. Our strategy in South Africa from a group perspective, whilst we pursue our own strategies, is to find ways that those are better

coordinated. Anyone in the distribution would rather work with somebody who already has an existing relationship and opportunity to open a door than try cold calling.

I think that also Nedbank had operated in their corporate relationships with their corporate network quite differently to our own. I think people were just busy focused on what they were doing and it's been the benefit of working from a group perspective of actually taking a closer look. We're working on a number of pilot projects and we've got teams that work in the large segment, the small segment, and the broker market. Why we hadn't done it sooner? We were just busy doing our own thing and now we're being smarter and we're trying to leverage.

Paul Hanratty

We'll take one last question.

Blair Stewart

I think you mentioned earlier, Paul, about as the business moves off the old guaranteed book into new products that the in force will just start to run down. What assumptions have you made in your embedded value for how quickly that will happen?

Paul Hanratty

On the group side and on the retail side we have assumptions – I guess maybe we could take offline the detailed assumptions that have gone into run off rates that are in there. I suppose your real question is how conservative or otherwise are those. I think our assumptions about run off are pretty conservative on the EB side. It's always a positive experience and very exciting for us.

Tim, thanks very much. I'm going to ask Thabo Dloti to come and talk to you about what we're doing on the boutique side.

Ensuring Competitive Customer Returns through OMIGSA: Multi-Boutique Asset Management

Thabo Dloti, Chief Executive, Old Mutual Investment Group in SA (OMIGSA)

I. Preamble

Good morning, ladies and gentlemen. Thanks, Jim. I think Tim, Paul and my colleagues have already spoken to you about the whole mutual fund investment group, but I think what's important is to explain first and foremost why we actually moved our business model the way we did.

II. South Africa – Similarities with the Rest of the World

Now, I could spend a lot of time telling you about the trends, but I think given that you operate in the same industry, you know a lot more about these.

I could also tell you a lot about who are the winners and losers in the market. You probably know about that already, so I will get to the point. The chances are, with the market dynamics that are happening in South Africa, which really are happening elsewhere in the world, it is clear that specialised, focused businesses have been the winners in the last while. If you look at the market share of asset managers, you will find that in the last five to seven years in South Africa, the specialised smaller boutiques have taken the lion's share of the market. Large established entities like ourselves have yielded market share to those entities. This has been the reality of our business and our environment.

Now imagine our business, which is a large business, a large player with established market share, particularly in established markets like parastatels. We're managing some of the large parastatels money, like the PIC, which as my colleagues have mentioned is the investor of the government employees' pension fund, we remain large investors for those markets. But these are not growing markets. These lines are actually restructuring and each time they restructure, they have a significant impact on our net client cash flows. As an established business, focusing on markets that it can be argued are ex growth, meant that we needed to look at our business differently.

Perhaps the most significant impact is that as the smaller businesses were building scale, we became the target; not only from a client perspective, but obviously from talent that we hold. So it was clear to us that we needed to transform how we are going to operate in South Africa. It was clear to us that we needed to change the way we actually address both client offering solutions and talent management within our business.

III. Our Goal

Two years ago, we set ourselves a goal. We said that we want to build a leading set of asset management businesses. I say businesses because we realise that a single structure will not address the challenges that we are facing. We wanted to build these businesses to collectively cover all the key asset classes and investment styles. Again, if you think about Old Mutual being a business that is competing in all the different market segments, to take a single investment strategy and to assume that it will address the needs of different markets and different clients, it has definitely become clear to us that that was not going to be adequate.

We saw a huge opportunity in leveraging the skill set that we had build within OMAM. We saw the opportunity to build diverse businesses, as opposed to watching that skill set leave because it's not able to

actually stretch the large core business that we were running. We saw that as an opportunity for them and for us, to build through them different businesses that are focused in very distinct areas.

IV. Learning from the US

We have learned, it can be said, lessons from our sister companies in the US. We know that this strategy does deliver better investment outcomes in the long term.

We transformed our large and established single business into 12 individually managed boutiques. What do I mean by individually managed? Each one of these businesses has got a specific focus and its focus is actually defined clearly by the boutique head. We have devolved power to decide around the investment strategy from the CIO to the boutique head. We don't have a CIO in our business; we have got 12 independent boutiques that are making independent investment decisions. You have and you will see different views emerging from our business, because each one of these are running their own strategies.

We were careful to ensure that they are complementary, because we believe that complementary capability is essential for the South Africa market. We could not have multiple capability desks competing, because that will work against the partnership we are trying to build with the investment talent we have. Each one of them has got a clear and distinct investment focus, as I've mentioned. Each is lead by an experienced investment professional or a team of investment professionals. The experience they have built, some within ourselves, within OMAM, others we have acquired over time, because we saw the unique opportunities that they brought into us. I talk here of a Marriot Income Specialist and Umbono Fund Managers.

Each is rewarded by the growth of the business. They really are truly partners with us, because we share in the economic benefits of the underlying business. We have created a true partnership with our investment talent that we believe will set us apart. This is not a cosmetic change, just taking specialised entities and naming them boutiques. This is fundamentally about changing our business and how we operate.

V. A Top-Notch Research Team

We have gone further. We have had a renowned research capability, particularly in the equity area. We have decided to build this and use it as a platform from which the boutiques operate. We believe that this enables the boutiques to leverage the collective experience that we have built over time around our analyst team. We believe that the centralised research capability provides each boutique with the breadth and depth of research experience, which by themselves they could not afford. They would not be able to afford the number of people, and the wealth of experience we have in these teams.

We have not only built the research in the equity area from the equity analysts that we have, we actually built a credit research capability, which we are beginning to use a lot in our fixed interest area and Old Mutual Specialised Finance area. We have continued to strengthen the risk team, which obviously helps us with portfolio implementation and risk analysis

We believe that this team gives our boutiques a competitive edge in research and we know it is a critical ingredient in building investment excellence in our business.

VI. Supported by Common Services

The challenge we had as we devolved more power to the boutiques is that our boutiques were going to get bogged down with the business issues. We felt that the best way to deal with that is actually having a set of professional business people to support them and provide a service to them. We have built a common

shared services area to provide support to boutiques. This does enable the boutiques to focus on investment management, with the comfort that they have got an experienced team that understands their needs and that deals with them as partners to deliver the outcomes that they require for them, from a business area.

We believe it is important for us to give assurance for clients, as we break up our business, that issues of governance and risk control, we will not be neglected. Certainly, this business's and the support team's task is to ensure that we operate with the same rigorous standards that we operated with before we actually went the boutique route.

VII. An Excellent Performance Base

In the long term, investment performance is the true test of whether this model will succeed or not. Historically, we have delivered good returns to investors. We want to deliver excellent returns as we move forward.

As an illustration, the Macro Strategy Investment team, which is really an asset allocator, by and large, has been a consistent out-performer. We were not able to sell it or market it individually, by virtue of the fact that it was sitting next to a big core capability. But now we are taking this out to a lot of clients and clients are beginning to experience the depth of experience and the skill set we have in this team.

We have achieved a number one position over a three year rolling period and number three over a five year rolling period compared to other large asset managers managing equity/global asset allocation mandates in South Africa. These are the numbers up until the end of April.

VIII. S&P Unit Trust Performance Awards

The success has not been limited to the Macro Strategy Investment team. We have won several awards recently at the Standard & Poor Unit Trust Performance Awards. We walked away, or our boutiques walked away with seven awards, representing 25% of the awards made.

IX. Sources of Funds Under Management

If one looks at the business that we manage and the source of the assets that we currently are managing in those boutiques, it is true to say that they reflect more the than the future that I have just presented to you. We are managing a large pocket of assets for the life company. We are managing a growing book, which we believe has got a huge opportunity in the unit trust space. And we have third party mandates, which post the PIC taking the assets away have got a huge potential for growth.

I think I should say a few things about the PIC because it has had a huge impact in our assets and net client cash flow last year. The PIC has converted from giving away large mandates to actually running a huge tracker fund in house. We have seen them taking away assets from the industry to bring them into the tracker fund, but they will be, they assure us, issuing a lot more aggressive mandates to different managers they currently have and obviously to the market as a whole. We believe that we are now ideally positioned to compete in all those areas where the future growth will arise, both from the PIC and from the market at large.

X. Financial Characteristics – OMIGSA

If we look at the financial characteristics of our business, my colleagues have already alluded to some of the asset that we manage, in terms of the different segments. At R420 billion, we are the largest independent asset manager in South Africa. A large portion of our assets have margins that vary

depending on the capability. It is fair to say that those margins have improved considerably since the PIC has taken the assets out of this, because they were really low margin assets.

The profits continue to be good, although historically they have been constrained because we have not had a large portion of our assets with performance fee arrangements. That has changed moving forward.

Sorry, there's one last point I've got to mention. I think the return on capital (ROC), as the team has mentioned, is very high. We hold very little capital in our business and with the profits that are growing, it's very clear that we have a high return on capital and we should continue delivering that moving forward.

XI. New Business Model

We are well positioned to be successful in 2007 and beyond.

- We have put ourselves in a better position to win the war of talent through the partnership model that we have created between ourselves and our boutiques.
- The multi-boutique model enables us to build long-lasting partnerships.
- It enables us to give autonomy not only from an investment process point of view, but from the business management point of view without actually shifting the burden to the investment professionals.
- We have created better-aligned incentives that ensure that we don't haggle at the end of the year. Everybody knows what's going to happen as the business progresses.
- We have ensured that we can meet different client needs.
- With the individual focus that we have in each one of the boutiques, we are better placed to deliver consistent superior performance. This is what cements our relationships with our clients.

XII. Growth Levers

1. Diversifying our Client Base

Moving forward, our growth will come in three areas. It will come from diversifying our client base from the traditional big clients, for which we continue to manage a large chunk of assets, to other areas.

We can add new boutiques in our range as the current ones are capped. Some of them have indicated that they would like to be capped in the next few years. Or when we discover a new opportunity, which currently the boutiques are not ideally positioned to compete in, we can actually bring in new teams. We will always be looking for opportunities to enrich the mix that we offer to our clients.

2. Steady Growth in Fee Revenue

We want steady growth in the fee revenue that we have. Now, you can grow that by the volumes, by attracting new assets, or you can also grow it by just increasing the margins that you get from the underlying funds. We have areas, which to my mind, we have built a skill set which we need to leverage and grow. For example, in the area of Private Equity we have got considerable experience that we have built over time. We have launched one of the more successful retail Private Equity businesses. Although this will not increase the stock of the assets by a huge

margin, but from the fee revenue that we are likely to generate as an asset management house is going to contribute significantly.

We also want to leverage the steady revenue growth that we have, by obviously – as I have mentioned – getting more and more into performance fees. All the boutiques have signed up to that.

3. Controlling Expenses

We will control our expense base. The market conditions have been good in the last five years, but we know that the markets do turn. And when they do turn, we need to make sure that the infrastructure that we have built is able and flexible, and can turn with the markets. We have been tightly managing our expenses, ensuring that we run a tight ship.

We have ensured that we can scale up on what we have, so as we add capabilities we don't add the central costs that the business is operating from. We have also ensured that central support is lean and focused by outsourcing the back office and all non-investment related support services that we have in our business.

XIII. Summary

In summary, we are ideally positioned to take advantage of the growth opportunities in both the fast growing unit trust business and the retirement fund market. We have created competitive advantages through the diversified capability that we have built through our multi boutique, yet at the same time with an unwavering focus in each one of those specialised areas that the boutiques operate in. This is growing our business by diversifying the client base.

We are beginning to see a lot more clients in areas, which we would not dare go to, because clients are asking questions about the new things that we are delivering to them. This obviously generates new sources of fees, as I have already mentioned, where we are beginning to leverage the skill set and capabilities we have built in some of the alternative businesses, which creates new sources of value that we are using to obviously grow our earnings.

We have structured ourselves to achieve positive net client cash flows, which will contribute positively to the overall group's net client cash flow, because our business is a significant part of the targets that we have set around net client cash flows.

We are achieving top quartile performance and we want to do so consistently around the different areas as we move forward. We are maintaining the excellent return on capital that we have managed as we go and change the business. It's important that we continue to do that.

All of you will recognise the scale of the opportunities that we are pursuing and the challenges, and we are very excited. I am very excited with the journey we have embarked upon. I have seen the energy levels it has brought in within our business. I have seen the focus on clients that it has brought in our business. I have seen the changes that it has made in the investment processes, as the investment professionals target and focus on what they do with rigour that they didn't have before.

I am ready to take questions.

Questions and Answers

Paul Hanratty

Thabo, thanks very much. I don't know if there are a couple of questions for Thabo.

Johnny Lambridis

Thabo, Paul, I'm struggling to see the benefit of a mix of structure for shareholders. I mean, for the boutiques themselves, yes, net cash flow could go up, but if we step back to 2006, you've got a cost income ratio of 60%; the peer is already at 50%. The boutique, if anything, will raise that cost income ratio. Therefore, you need to sort of really push on the net cash flow side.

But the difference between SA and the US is the US is growing, you know, the industry sort of 8%, 7% net cash flow to opening assets each year. South Africa, the six or seven biggest asset managers have been lagging at 1.5%. So my view is the amount of money that you'll need to get through the door will not offset the lack of scalability that you're building into your model, so that actually the bottom line for shareholders is no growth in earnings for OMIGSA. What am I missing?

Thabo Dloti

You're a shareholder. What is the benefit for a shareholder? There are two parts to my approach to this. We have a sizable business that's very successful. You're absolutely right. The challenge that we have is we could keep that business and keep it and try to scale it up, but to my mind if we don't compete in the areas that are growing, as a shareholder in the long term we will be giving away the value that we currently have.

To build the value the way we are, where we are creating new capabilities, yes, initially you are giving away something but in the long term you are giving yourselves opportunities to grow in the areas where traditionally you would not have grown. That is the opportunity that we are seeing and we are pursuing.

Paul Hanratty

Maybe, Johnny, I should just add to that that in designing all the new remuneration structures in the business, what we have done is that for basically at the current level of performance, the cost is pretty much the same. If the performance is not as good as we want, the cost is actually lower than in the current environment. We have made the cost much more variable and if the guys perform well on the upside, in terms of bringing in cash and actually most importantly revenue and fees, because actually it's not just the assets, as Thabo mentioned; if you get good performance and you can generate big performance fees, that's also a way of leveraging the thing.

I think one of the reasons that our ratio – you used cost to income, but remember a huge chunk of our assets is the life assets, which is charging very low margins. In fact, just the life book itself, we've actually converted that from the current basis, which is a flat bps across the board, to a structure where we have reorganised the assets across all the boutiques and we have put in place performance fees. Actually, if his guys do well and generate alpha for us, actually their slice of the cake, their revenue, will rise quite nicely.

Tim Cumming

Johnny, I think your comparison of the net cash flow in the US and South Africa leads you to the opposite conclusion to the one you were leading to, because the issue is if it is more competitive, as in less net cash

flow, that throws more weight on better investment performance. So you put more effort into producing the right investment performance. It's more important to do OMIGSA in South Africa than it is in the US, in fact.

And I think what we've learned, what we believe about running the asset management businesses worldwide, is that if you focus just on this cost point, you quite quickly go wrong. This is really about how you generate the revenue, as Paul was saying, rather than worrying about the cost. I mean, of course you've got to control the cost, but the fine detail in there is way outweighed by the impact if you can produce good cash flow, which relies itself on good investment performance.

Paul Hanratty

In the interest of time, I'm actually going to move on and actually ask Rose Keanly. Thabo, thanks very much, because Johnny asked such a tough question of you. It's a question I ask him all the time: how are we going to make more money? We're going to let him off the hook and Rose, over to you. Rose is going to talk about what we're doing in our service and technology area.

Rose Keanly, Managing Director, Old Mutual Services, Technology and Administration (OMSTA)

I. Preamble

Thanks, Paul, and good morning everybody. My colleagues have described the kind of context within which the service, administration and technology business operates and the role that we play in Old Mutual's business and strategy. I am going to use this opportunity to further explain the key contribution that we make.

II. OMSTA – Back Office

Historically, these capabilities were embedded in our front facing market businesses. We realised a couple of years ago that we had sub optimised our scale and our skills. What we therefore created was a centralised back office operation that operates commercially, as Paul talked about earlier.

This internal outsourcer services Old Mutual's 3.6 million customers and about half a million of our retirement fund members that are part of Tim's business. We also service the full spectrum of intermediaries: the IFAs, the salaried advisers in Marshall's business, and the tied agents that Mike and his business have.

We administer the full range of Old Mutual's products: all our legacy book as well as the current product range that we sell. And we interact with our customers across a broad spectrum, from our national branch footprint through multiple specialist call centres to a variety of different internet enabled capabilities that we offer to those customers.

In addition, we provide the technology services for OMSA. This includes the infrastructure services and the application development. And you will have heard yesterday morning from the Skandia guys in the UK that we are doing the application development for their supermarket project in South Africa currently.

III. Administrative Unit Costs

Since Demutualisation and Listing, we have actively focused on reducing our overall cost base and have focused on unit costs as a key measure in our business. You can see from these graphs the downward trend that we have managed to achieve with regard to our life product, both in Retail Affluent and Retail Mass, as well as in our collective investment business.

Our 2007 to 2009 business plan accelerates this trend. Where we stand right now in 2007, we are on target to achieve this plan. We have achieved this reduction through a series of cross organisational initiatives which have enabled us to progressively reduce our headcount and tackle the overheads in our business and our technology costs.

Some examples of what we have been able to do is we outsourced our technology infrastructure to a supplier a number of years ago; Project Merlot, that Paul referred to earlier, which is where we outsourced the Group's voice network; and also we have, over the last couple of years, taken significant cost out of our key core processing areas through the application of lean manufacturing principles.

IV. Service Standards Compare Well

It may seem a paradox to be trying to uplift your customer experience at the same time as taking out unit costs. Our annual customer survey has showed us that over a number of years we have been able to reduce dissatisfaction levels amongst our customers, as well as increased delight scores. This places us ahead of all of our competitors in terms of feedback from our customer base.

In addition, we monitor feedback from our intermediaries very closely. You can see from the results that we have achieved over time, while they may fluctuate, the service levels to our intermediaries are good and particularly important that it's through a very tough time that they have been through, with increasing regulation, as described by my colleagues earlier.

V. Financial Characteristics

We regularly benchmark ourselves against both international benchmarks and what is available locally, although our local benchmarks are somewhat limited. On the Retail Affluent side, you can see that we compare excellently against a key competitor of ours. And certainly in respect of international benchmarks in both Mike's Retail Affluent business and Marshall's Retail Mass business we compare extremely well. Also, in the unit trust administration area, we compare favourably with both domestic and international benchmarks.

VI. Targets

Against this backdrop of continuing to compare ourselves, we are targeting to take a further 20% out of our unit costs on average by 2010. We believe that further opportunities exist in the retirement fund administration area, in the overheads in our business, and also in the technology space.

We will also continue to focus on productivity, where we do currently compare favourably with the latest UK Troika report. We will also continue our strategy of a flexible workforce, which will enable us to continue to progressively reduce our headcount through temporary administrative staff and contractor IT people.

VII. Driving Administration Efficiency and Service

We have put together, to align with the rest of the OMSA plan, a three phase plan to build on the foundation that we have established and drive further admin efficiencies and service excellence.

1. Phase 1

During the first phase we are really optimising the centralised back office that we have created, including the national service footprint. We are doing further investments in our technology foundation. And we are taking the LEAN skills that we have proven over the last couple of years and applying it across all of our core processes. At the same time, we are strengthening our business matrix and performance management around that.

2. Phase 2

During Phase 2, as the lowest cost operator in South Africa, we believe the real focus is on supporting the growth opportunities that my colleagues have outlined previously. In Marshall's business it's about how we take a service proposition to that foundation market. In Mike's business it's about the buppie market. In Tim's business it's about the opportunities that the pension fund reform offers us. That will mean that we'll have to develop a range of different flexible service models that will enable us to service the full spectrum of South Africa's customers.

In addition during Phase 2, we will be leveraging the opportunities that we believe technology offers us, both the new servicing opportunities that emerging technologies bring as well as synergies that we believe exist across the three companies in South Africa.

We will also be taking these LEAN skills that we talked about and applying them in a focused way to the retirement fund administration area to achieve the unit cost benchmarks that we'd like to see there. Underpinning all of this will be an investment in strengthening the service culture of the business that we are running.

3. Phase 3

By the time we get to Phase 3, we see ourselves as having achieved the unit cost benchmarks that we are seeking in the retirement fund area, certainly continuing to exceed international unit cost benchmarks as well as achieving the service benchmarks, further leveraging technology opportunities. We believe we will be in a strong position to attract significant work from the rest of Old Mutual's group internationally.

We believe this is a challenging three-phase plan, but we're confident that our recent track record allows us to believe that we will be able to achieve it.

VIII. Summary

In summary, OMSTA offers Old Mutual a significant competitive advantage. This ranges from the scale of our operation and our product experience, through the historic and current technology investments that we are making, to a number of key skills in the LEAN and the commercial area that we have recently developed.

The growth in our business, as fuelled by the growth in the overall OMSA business, will come from increasing the service experience to our customers and enhancing the cross-sell opportunities that have been talked about; entering new markets and taking service propositions to those markets; as well as further driving process and technology efficiencies; and, as I mentioned previously, the scale and the opportunity that we believe exists outside South Africa with the rest of Old Mutual's group internationally.

Our targets, as you would expect them to be, are in year on year reductions in efficiencies and unit costs, as well as continuing to push our service experience for our intermediaries, our customers and our retirement fund members, so that year on year we continue to improve that.

We in OMSTA fully understand the key contribution that OMSA needs from us in order to achieve its vision. I think at this point I will take some questions.

Questions and Answers

Paul Hanratty

Great, Rose, thanks very much. Rose, I should just maybe point out, Rose is very modest. When she put up the international benchmarks, you may have been surprised how low they were. That's because she's adjusted them for South Africa labour rates. It's actually not the cost that you would you'd really have to pay, but if you could imagine doing the work in South Africa at our labour rates, that may explain to you why they look so low. Can we take some questions?

Matt Lilley, Lehman Brothers

What sorts of operations and functions could you imagine being able to do in South Africa on behalf of say the UK business or the US business? Would they be customer facing, call centre things or is it more a question of IT and outs?

Rose Keanly

I think there's a definite opportunity on the IT side and that we're already doing. I think you live in a market where there's a lot of debate about the call centres and where you put them. We are having some discussions I think certainly in back office processes and, you know, I think it's a debate for some of those businesses as to where they want to locate their front facing opportunities. But I think definitely in the back office processing area and definitely in leveraging the technology that we have made over many years.

Matt Lilley

How do you account for it? Are you a profit centre or a cost centre?

Rose Keanly

Well…

Paul Hanratty

She's a profit centre. Actually, that's a good point. We've set our whole business up, all our value chains are split up, so Rose has actually got service level agreements with all the front facing businesses and we pay her basically at a very detailed method of paying per transaction and volumes, and then she's a profit centre.

Rose Keanly

I mean, I basically get paid those unit costs, contract them in advance, and that's the way it goes.

Paul Hanratty

We're not trying to make huge profits; it's more a question of delivering within the targets that we're setting. We'll take a question from Greig and then I think we'll wrap up – sorry, and then David maybe.

Greg Patterson

Once again I'll mention a comment from Jim, I don't know if it was earlier or late last year, when asked whether he would want to play in the off shoring market and compete with, you know, there's a lot of

financial services going off to India. The previous Old Mutual view, about two years or three years ago, was they were going to play. And his last comment was, 'No, we don't want to get involved in that.' I mean, do you have any plans to bring external clients, once you become an efficient player, into your company?

Paul Hanratty

I think to be clear: we're already an efficient player, as you'll have seen from the benchmarks. And we do already have quite a number of external clients. For example, I know Rose used the word 'collective investments'. That's a South African terminology for unit trusts. We already have a number of external parties that we are doing administration for.

I think our emphasis has always been that we should first and foremost deliver excellent service and costs to our own businesses, and we're not ruling it out by any means at all, but it is not on our strategic agenda. We have set our agenda up for you. It is something that I think we could explore in time, but it's not something in the next two years that I'm chomping at the bit to get stuck into.

I don't know, David, if you've maybe got a question.

David Danilowitz

I'm just trying to get a feel for the different costs based on the different areas of the business. In terms of the way business is distributed, obviously there's an acquisition cost, which we're not necessarily talking about, but on your side of the business is there quite a big difference in the administration of different sources of business? And which of those are on the higher end and lower end?

Rose Keanly

I think if you take, I mean, the most obvious kind of difference is if you take administering Mike's business to Marshall's business. Now, in Mike's business, with much more sophisticated customers, sophisticated products, and some of the investment products need a lot more servicing, so some of the unit costs there are quite high. However, it's an opportunity for us to drive self servicing and you know those unit costs are very low, if you can get the customers to actually do the servicing themselves.
In Marshall's business it's very interesting because while those products are simple and the costs are very low, what's strategically crucial to us is their branch footprint, because those are customers who walk in, who want access, who want to see who they're dealing with. And I think we're pretty pleased that that business, those unit costs in that business, we've been able to maintain as lowly as we have, even though they're carrying the lion's share of that branch infrastructure. It's a different mix of different customers.

Paul Hanratty

There are lots of differences, David, and we measure them very closely. For example, when Mike was talking about, his agents, we don't get a single new business application that isn't straight through from laptop to mainframe. But on the broker side, the guys are still quite hell bent on filling in forms and paper. And so we measure and we know there's a difference in cost to us of processing. Rose has a very detailed activity based costing and that obviously comes into the agreements with the segment heads about how much they're going to get charged and so on. The more we can drive, as Rose said, people to using the web and straight through, but in Marshall's market that's not desirable, because the customers actually want branches, and so we're maintaining those.

Okay, I'm going to wrap up now. Rose, thanks very much indeed. I'm just going to close off with a short overview of the business and then we can take some general questions.

Wrap Up Paul Hanratty, Managing Director, Old Mutual South Africa

I. OMSA – Delivering High ROC & Good Margins

I think, putting it all together, overall the way I look at the business, it's a big business in South Africa. It's a business which is characterised by having overall new business margins that are in our target range, but as we've been through the different areas you've seen some are really, some are at the bottom end and some are actually below our target range.

Overall our return on capital is really good and we've explained how we intend to maintain that. Our profit after tax, expressed as basis points, is 64 points. Again, I'll talk about how we see that moving forward. Our maintenance costs, which is a reflection of how efficient we are – and to be clear, those are fully loaded for all the overheads in the business – are actually at very good levels compared to any local benchmarks we can get and exceptional against any international benchmarks.

The big problem for us in our business, as we've spoken about, is the issue of net client cash flow and the fact that it's negative. And we are fundamentally transforming our business going forward to get it back on to a growth path, whilst maintaining our return on capital at a level that will continue to generate significant shareholder value.

II. Driving the Transition of the Business

If we view the business, and I know that Jim has introduced you to the concept of assets times margin minus expenses. In our business as well, we like to divide the resulting profit by the capital and measure the return on capital. If you split that business between our new era and our traditional book, you can see that our new era businesses already represent a very, very significant block of assets.

Most of our new business now that we are selling is new era and the book is building very fast, but the financial dynamics, as I've spoken about this morning, are substantially different. If you look at the net margin on assets, it is a lot lower. That, firstly, reflects the difference in the capital requirements of this business versus the capital requirements of the traditional business. Whereas the traditional business has a capital to assets under management ratio of around about 6.5%, for the new era book this is just over 2% - much lower capital intensity and therefore lower margins, because you're not having to reward as big a base of capital.

In addition to that, we've been spending a lot of money in different areas, building our new era offerings. I'll talk about some of those just now, but a very high investment in various projects. And also because our new business is focused there and we're attributing all the acquisition costs to that, the acquisition costs make up a relatively large proportion of the cost base and are high when expressed over this portion of the assets.

Going forward for us, the big challenge that we have set ourselves is to raise that return on capital on the new era products from its current level of 16% to above 20%. We have a number of initiatives aimed at doing that. Just to be clear what they are: firstly, as the business grows the distribution costs will just naturally form a smaller proportion of the asset base. That in itself will cause that ratio to rise and improve. But we are targeting, as Rose mentioned, to keep our administration and back office costs well below the rate of growth in the assets, so that also will help. And then the initiatives that Mike Harper spoke about, to streamline and improve the economics in our retail distribution channels, are also going to help us. We're confident that within three years we can raise that return on capital on the new era business to more than 20% while maintaining in run off our traditional book in excess of 20%.

Clearly over time, as these two different businesses change in their mix, as the new era becomes more significant and the traditional winds down, so your dynamics change, your financials change slowly over time. We do expect that the overall margin on assets, which is currently 64 basis points, will reduce, but of course we'll be slowly releasing capital as that ratio of capital to assets under management also drifts downwards from its current 4.4%.

The combination of those effects, coupled with a very strong discipline in back office costs and how we run our distribution economics, combines to give us the maintenance of a decent return on capital.

III. Strong Medium-Term Outlook for FUM & APE

1. Retail Affluent

If one looks overall at the different segments and what our outlook in the medium term for these, starting with the Retail Affluent segment, we believe that the funds under management there can grow ahead of inflation through a combination of market effect and positive net client cash flow. We also believe that the dynamics in the market and the change in the demographics are going to help us to drive APE also above inflation.

2. Mass Retail

In Marshall's markets the situation is, as you've seen from the demographics, that we expect to see very, very fast and rapid growth in APE, but it is primarily, at this stage, got a very heavy focus on risk and therefore assets under management are less of an issue.

In the Retail Affluent market we see a very strong shift away from the traditional products, with high capital and high margin, to much more unit trust based and flexible products with lower margins. In the Retail Mass market of Marshall's, we do see the high margins that we have coming under competitive pressure, but we don't anticipate that these will reduce below levels that we still regard as being extremely attractive.

3. Corporate

In the Corporate market, as our boutique model begins to take hold and we can plug them into defined contribution and umbrella funds, and as pension fund reform comes at us, we do believe that we can grow our funds under management again strongly through a combination of market growth and positive net client cash flow. And again, APE we would see rising in line with inflation at least.

IV. Profit Growth

1. Retail Affluent

In the different segments profit growth will be somewhat different. In the Retail Affluent, as we have this very strong shift from traditional to new era, so in the short term the profit growth will be modest but return on capital will remain good.

2. Mass Retail

In Marshall's market, we think profits will continue to grow slowly, although maybe at a somewhat more muted rate as we are forced to take somewhat lower margins from competitors.

3. Corporate

In the corporate space, again Tim spoke really about this big shift, particularly of our guaranteed fund. If we have a significant volume of switches from the guaranteed fund to our new absolute return funds, we could see a significant amount of capital being flushed out and profits in absolute terms being reduced. But that will be good for us, because our return on capital will rise.

4. Other Assets

In Thabo's world, he spoke to you about the fact that we do manage assets on behalf of other asset managers: multi-managers and the PIC, who looks after the government pension fund. Flows are very volatile there. They depend on short-term performance, but it is not extremely high margin business. Our strategy there is to continue to manage those assets but not to build any expense base in respect of those. Whatever business we get there essentially results in profit falling to the bottom line.

Overall as a business, we see strong growth in assets under management and APE. In the medium term, as I explained earlier, profit growth will be modest but return on capital excellent.

V. Profit, Capital and Margins during Phase 2

I spoke earlier about the fact that we get a lower return on capital and lower margins on new era products. That's because we're investing a great deal in our new era offerings. We have invested a lot in developing our boutique structure. We have acquired Umbono Fund Managers, which is an index tracking asset manager. And we are putting a lot of effort into both the marketing and into the governance and control structures that are so necessary in that form of business structure.

The new commission regime that I spoke about earlier is going to require significant investment to transition and finance our intermediaries through that, without losing our distribution capacity before that situation normalises.

We are investing a lot in our IT, in our employee benefits administration, to drive down the costs there, that we believe needs to happen, and to create a platform for future growth in the pension fund reform world.

We continue to invest a lot in growing our agency distribution, particularly in the Retail Mass market, and we are spending a great deal to shift our brand from being a traditional life insurer to being a premier savings and wealth management brand.

We are also, in combination with Nedbank, upgrading our physical branch infrastructure across South Africa, because I think we've all learned that the dream of clicks and a virtual world just doesn't wash for customers.

At the same time that we are investing a lot of money in growth in our new era area, we have targeted a number of areas for operational improvement. One of those that Mike Harper spoke about is the Retail Affluent distribution business, where we have had to focus on getting the economics right there. Our employee benefits administration business I spoke about and the need to invest in IT to drive down costs. And finally, our LEAN programme that Rose spoke about. There's a huge investment over the next three years, which will have heavy payback for us in the form of reduced maintenance costs and reduction in the allowances that we need to make in our valuation for future expenses.

VI. Shifting to Less Capital-Intensive Products

The approach to capital management in the group is that the Old Mutual plc and Jim and Jonathan allocate capital to the various subsidiaries and we are expected to make a good return on that capital. We

endeavour in our business to manage capital efficiently, but we do maintain capital levels that we believe give our clients an excellent level of security

I have spoken about the fact that we aim to lower our ratio overall of capital to assets under management. If you look at the historic picture, the ROC has bounced around but you can see the trend is basically to lower capital to assets under management.

VII. Developing OMSA into a Premier Savings Institution

Overall, we're trying to transform our business from a traditional life insurer into a premier savings and wealth management business in South Africa, selling products to customers that are priced in a way that gives excellent value both to the customer but also to shareholders. We are building in flexibility, lower margins and less capital. And we're leveraging off a very wide distribution network that we're going to continue to invest in and expand, using our powerful brand to back it up.

We do believe that when we do all of that and we put in place disciplined cost reduction programmes in our back office and in the Retail Affluent distribution segment, we can maintain a return on capital that will be very attractive to shareholders while we transition to this new business.

VIII. Financial Targets

The particular financial dynamics of the traditional book and the new era, which are so very different, means that over time we can expect to see quite a shift in the financial characteristic and shape of our business. In the short term we do expect modest profit growth, but in the long run accelerating rapidly again.

We have set ourselves a few key financial targets that capture the very essence of our strategy:

- The first of those is to get our net client cash flow to positive territory. We are targeting 2.5% in Phase 2 of our programme. In later years, we'd like to see that lift above that.

- Our return on capital we want to maintain overall above 20% and we want to get our new era business up, over the next three years, from 16% to north of 20%.

- Maintenance costs, we've set targets for ourselves that reflect some of the cost reductions that we anticipate seeing. We've set targets for the end of 2009 of R13.89 per policy per month for the Affluent segment and R12.83 for Marshall's business.

We have a number of initiatives to make sure that we drive our return on capital on the new era business up above 20%, and I spoke to that just now. The goal of getting to net client cash flow of 2.5% is a very significant target to set ourselves. I think Johnny alluded to the situation in the South African market, but we do believe that this bold step of putting in place a boutique structure, if we can bed it down and make it successful, we believe that we can get to those growth levels. Finally, our targets that we've set for expense management give us a very concrete way of delivering short-term value for shareholders.

IX. Growth off a Proud Heritage

Old Mutual has a very proud heritage. I hope that we've given you a little bit of the flavour of that today. We've had a 162-year history of servicing South Africans and there are some wonderful anecdotes. I might just share one small one with you. There are two very famous South Africans who used to have their law office in our building in downtown Johannesburg. That was Nelson Mandela and Oliver Thambo. For those of you who know something of the history of South Africa, black people were neither allowed to live

nor have premises in so called white areas, but they had their offices with us and we were under continual pressure from the police to throw them out. Because we have great salespeople, we did a lot of business with those two gentlemen. There did come a point when they went on the run – and probably lucky for us because they went on the run before we got thrown in jail for renting them premises, but money still continued to come from Oliver Thambo in brown envelopes from all over the place. We kept that money diligently. After 1994, his wife contacted us and we were able to go and pay out. So we have a long history of serving all South Africans.

We also have a great growth track record. It is interesting to look back. In 1970 we had R700 million of funds under management. By 1980, before I started work, R3.5 billion. By 1990, R58 billion. By the millennium, R202 billion. In the next six years, we have just over doubled that to R448 billion – a proud history of growth.

The last few years have seen a very big change in our environment in South Africa in financial services: lower inflation, shifting consumer demand, new regulation, changes in tax. We have done what this company has done for our 162 years: we have adapted. We have constructed the three-point plan, or the three-phase plan, that we have spoken about. We are well into and nearing the end of Phase 1 and we believe that we are on track to create a great business. We think that we can transform ourselves to a premier savings and wealth management business in the entire industry and we think that in doing so we can maintain our return on capital at levels that are very attractive for shareholders. At the end of that point, we will have a great business that is ready to grow its profits again strongly.

I thank you all very much for attending this morning. I hope you found it useful. We can now take questions: all of us that spoke this morning plus Peter Golesworthy and Peter De Beyer and Ralph Mupita. Jim might even be happy to take questions.

Questions and Answers

Jim Sutcliffe

Thanks Paul. Julian is still in the room; I saw him earlier. You might get one from Marius, I believe, in Cape Town, who didn't get a chance to ask yesterday. Are there more general questions?

Blair Stewart

Just two questions to wrap up from me. You talked a lot about capital starting to coming out of the business in South Africa, but you've never really quantified how much capital you expect to come out. I don't know if you can make some general comments on that and also on the structure of the balance sheet in South Africa and how you expect that to change going forward. Really, it's just what will you do with the capital?

And the second question is the 20% cost reduction; how do you expect that to impact the embedded value as that comes out?

Paul Hanratty

Blair, basically in terms of the capital, I think right now it's fair to say that we sit with a fair chunk of excess capital in our business. You'll be very aware of the various restrictions on moving that capital. I think as well in the next couple of years we do expect to see a fairly significant release of capital. Again, as I mentioned earlier, our policy is to manage the capital that we're allocated in our business. Wherever the capital sits, the plc uses that for the overall capital management of the business.

Jim Sutcliffe

Blair, just to be clear: we're not going to give you a number, but just to confirm what Paul said. The direction is that the business will grow. You've seen the percentages attracted on average by the two different types of business, the new era and traditional, so you can start to work out exactly where the numbers go from that, I would hope.

Paul Hanratty

Yes. And your second question on cost reductions, I know you asked me about embedded value. To talk about profits, I think last year the reduction in our maintenance expenses versus what we had allowed for in the valuation meant about 150 160 million capitalised effect. The previous year, 200 million – 250 million, sorry. And if you take another 20% you can probably again, you can do the sums roughly but it's fairly significant in terms of the profits. And of course embedded value, again you can do the sums roughly.

Blair Stewart

T*hanks. Sorry, can I come back on just the first one, on capital? I mean, subject to the constraints that you have to adhere to, presumably you don't have any desire to hold excess capital in the group.*

Jim Sutcliffe

It's not whether he has any desire or he doesn't. He's not going to. Okay? He's going to give it to Jonathan.

Blair Stewart

It was addressed to you, Jim. I was asking you.

Jim Sutcliffe

Sorry, I see, me. No. No, absolutely not. I mean, Jonathan has made that very, very clear. I mean, we get paid off ROE. You lot have it. So no, we won't hold it. The only issue, as you know, at the moment is that we're on a negative watch at Moody's and so we're not going to upset the balance between bondholders and equity holders in a way that damages our bond rating. But subject to that, we will either use the capital for something sensible or get it back somehow to shareholders. Jonathan, you have said that publicly in many other places, I think. Sorry Paul, I didn't mean to pick on you if he was asking me.

Dave Danilowitz

Paul, we didn't speak today at all about the pension fund adjudicator. I'm assuming the reason for that is because you believe it's in the past, there aren't any further issues. I'm not talking about the adjudicator itself, but just the issues that were hitting the insurers in the past. Do you think we've changed the perception from at least regulators about insurers and how they're running their business?

Paul Hanratty

Dave, I think the environment has changed and public perceptions have changed, but we still have a huge amount of work to do. I mean, I'm personally and us a team are playing a huge role in changing the image, making sure that we have really strong relationships. And actually in South Africa, part of it is actually about the bigger role that you play. You can probably gather we're a very big player in – I mean, we're tiny to you guys, but in the South African economy we're big players, so everything that we are doing with social investment and driving economic transformation are all things that are really helping us to change the nature of our relationship and I think we are in much better shape.

Actually, I think the regulator and people like the FAIS ombudsman, who's the person who looks after financial advice, all have a very good image of us as a business.

Marius Strydom (via telephone)

Firstly, I apologise for not using your hospitality to come over and be there in person, but I do appreciate that you will take my call today on the phone. I do have a question relating to yesterday and a question relating to today. The question relating to today is, as far as the proposed social security scheme in South Africa goes, is specifically how it could well impact the LSM one to five markets; in other words, those people that are at the bottom end of the market, the entry level risk market, your group schemes market.

I would like to know, I mean, from your presentation today it appears as if you are still very keen to grow into this market. I'd like to know what your sense is of how you can influence what government is intending to do here, because from my perspective government intends to provide cheap, compulsory cover to every single formally employed person in South Africa, which would include individuals in that target market. How do you intend to continue to grow in that market when, in essence, it appears as if government is going to take that away from the private sector? And the fact that government is going to ask, is not going to have a rate… Will have one single rate for the whole scheme – in other words, the risk cover will be cheaper – and the fact that government will not need to pay any commission to get this product onboard. In other words, the product is going to be extremely cheap relative to what can be offered. How do you foresee being able to continue to grow in that market with the introduction of the scheme?

Jim Sutcliffe

Okay Marius, why doesn't Paul tackle that question and then we'll come back to you on your question from yesterday, if that's all right.

Paul Hanratty

Marius, just to be clear, and particularly for the people in the room: LSMs are a way that we categorise people in South Africa into income groups. Marshall's traditional business is in LSMs five to eight and you are asking about the one to five, which is typically what we call the foundation market. I think, you know, you've said your view is that the government is going to put in place a compulsory scheme and eliminate the private sector from there. I think if you talk to government, we won't see any concrete policy emerging until probably early 2010, so it is quite early to start talking about the detail. There is going to be a lot of, as we have in South Africa, the way policy is arrived at, there's a huge amount of discussion, consensus and input taken. I think the thing has a long way to go.

Basically, the government in South Africa has a good track record of public private partnership. Actually, its policy, if you think about it, is to move away from nationalisation and towards privatisation. My view is that we will end up with some form of partnership in that arena. We believe that the government can be very useful partners for very efficient collection of premiums there. And when Marshall spoke earlier today about the foundation market, he made it very clear that face-to-face advice that we use in LSMs five through eight is simply not economic in that bottom foundation market. You need alternative means of distribution. In fact, the government would be a tremendous asset to us in helping in that space. We believe actually that there's a long way to go. There's a spirit of partnership and they could be very good partners for us in that space.

Jim Sutcliffe

Marius, do you want to talk to the second point you had?

Marius (via telephone)

The second point relates to yesterday's session.

Jim Sutcliffe

You can go ahead. Julian has got a microphone and is happy to answer, if you want to ask it.

Marius (via telephone)

Okay. From yesterday's presentation it became very clear that in all of Skandia's businesses, investment or asset fees is a very large proportion of revenues, specifically in Nordic where it's at 90% and in the UK as well. My question is what is the sensitivity of the value of the in force business of Europe, where I would include the UK and Nordic as well, to a movement in the market? Because on your disclosed basis, you disclose a sensitivity to a 10% move in the market of only 2%, which really does not make sense in the context of such a large proportion of fees being earned on levels of assets. If you could explain what that discrepancy is and from your point of view how profits and also obviously the value of in force would shift with the market.

Julian Roberts, Chief Executive Officer, Skandia

Now you know, Marius, why I didn't allow telephone calls yesterday. I have to say, a very detailed question. I was searching for our chief actuary in the back of the room, who was shaking his head. I think at the moment I would have to come back and give you a precise answer, but I'm afraid I haven't got that at my fingertips at the moment.

Marius (via telephone)

I would appreciate it if you could come back to me then on that please.

Julian Roberts

Okay, no problem.

Marius (via telephone)

T*hank you very much. Have a good weekend.*

Jim Sutcliffe

Thanks Marius. You too. All right. More questions?

Matt Lilley

We've heard a lot about your plans for OMSA but Nedbank is half of your earnings in South Africa and has hardly been mentioned. What are you going to do in Nedbank in the long term? Do you try and buy the rest in and integrate it into your business or do you get rid of it? Because this situation where it's kind of half in Old Mutual, but half not, I think is slightly confusing.

Jim Sutcliffe

I mean, today was set up to be a discussion about OMSA, so that's why we didn't talk about Nedbank. But what we've said many times is that our overall strategy in South Africa is to provide a full range of financial services products to all South Africans. Clearly that then includes banking products and you've heard Marshall talk about the need for banking products in his market and the blurring of the boundaries, which I think is common ground all the time.

Nedbank is part of our overall strategy and therefore it's not for sale. Whether you then start to… 'Well, we ought to own the other part of it as well,' I don't think that's a natural conclusion. I don't, as it happens, think in any event the regulators would be keen to have that happen, because they like to have those banks with public quotes.

What we will do is we will concentrate on getting the businesses to operate together and get the synergies out. You know, you can argue, 'Well, the minorities ride our backs all the time on that subject,' and they do ride our backs all the time anyway, so we have to make the decision about that. We haven't got a commitment to buy in the minorities in Nedbank and we're not selling Nedbank. Now, that leaves you with one conclusion: we stay where we are, right? You know, is it exactly where we would have been if we had a fresh sheet of paper and could have complete freedom? Probably we would be somewhere a little bit different, but it's a perfectly satisfactory place to be for us at the moment.

Anything else? Okay, good. Can I just say thank you as well? I hope that, if I can just repeat Paul's final message, I hope you saw some Paul's opening slides and from Thambo's words last night our belief in the

economic strength and stability of South Africa, and indeed the opportunity that the demographics of South Africa give us.

I hope we have shown today or enabled you to participate a bit better in the understanding of the business: the shift to the new and transparent and flexible products that Paul and everybody have spoken about, and indeed the need for specialist asset management, which we believe will provide the customers with the best investment returns and hence deliver what I think all of the people who have spoken today have said, which is the potential for the growth that this business offers us as Old Mutual and our shareholders.

I hope also you've seen some of the depth of planning that Paul and his team have introduced into this business. It's all very well of course talking about it, but in the end you will judge us by what we actually deliver. I think some of these cost reduction targets that Rose was talking about, as well as some of the net cash flow and growth targets on the other side that you've heard about, will help you share our confidence in the future of this business as a continuing value creator for Old Mutual.

I think that's it from us today, folks. Thank you very, very much for coming and we look forward to seeing you all individually. If there are more things, I'm sure people will be around outside if you'd like to ask some more. Thank you once again and all the best for the weekend and on your travels home.