Jonathan Nicholls, Finance Director, Old Mutual

Welcome and Introduction

Good morning ladies and gentlemen. Welcome to all of you. I'm delighted to welcome you to the first of our two half-day presentations on a couple of our businesses. A special welcome to those of you who have travelled a long way. It is good to see you. I hope you enjoy the two days. Certainly, we're pretty excited with the story we have got to tell. Julian Roberts is going to start off with Skandia. You don't need any introduction to him. He was my predecessor. Then tomorrow, Paul Hanratty and his team will be here, doing South Africa. At the end of each presentation, there will be the opportunity for questions. I'll leave that in the capable hands of Julian to run.

We are building a premier international savings and wealth management group…

If I could just do a bit of an introduction. Some of you will have seen this slide before. What are we doing here at Old Mutual? We are building a premier international savings and wealth management group, using our leading open architecture expertise. We are using our world-class asset management abilities that we have around the world and also providing a complete financial service to all of our South African customers. We are doing this by targeting our global trends, which are driving the industry, obviously demography, increased transparency and of course freedom of choice and flexibility for our customers. We are developing core and satellite management and also outsourcing.

Q1'07 – a strong start for the Group…

This is a summary of Q1; you will have seen these numbers, but just to remind you. It was a good start to the year for us, sales, as you can see for the group, up 9% at £421 million. Unit trusts were down in the quarter, but generally over the last year or so continuing to increase. Net client cashflow is very strong and we will talk about that in the individual business when we go through the next two days. Funds under management, up 5% are now at £249 billion and Adjusted Operating Profit (AOP) is £398 million. Again, you will have seen those numbers when we announced them about a month ago.

… on track to reach £300bn FUM in 2008

We have got a short-term target of reaching £300 billion of funds under management by the end of 2008 and we're in good shape for that. Europe is now up to £70 billion and we are still well on track for our £300 million profit for that business in 2008 and no doubt Julian will talk to that in a minute. South Africa continues to grow with tremendous return on capital, over 20% in our businesses, with good progress being made as we speak. In the US of course, you will be familiar with our multi-boutique model. Last year, it had a tremendous year, particularly in relation to net client cashflow. The performance of that business is very pleasing indeed. Asia is growing steadily and, as we call it, the fourth leg of our ambitions going forward.

You'll remember that at the full-year results presentation, we presented an assets x margin - expenses slide. The take-away from that slide is that if we increase our assets by £15 billion in a year, that's about equivalent to 1p of earnings per share.

Old Mutual applies to move its Swedish listing to the Xternal List

Some piece of good news for those of you who don't like quarterly reporting. I'm glad to announce that we have probably done our last quarterly results and with effect from Q3, we would have delisted from the Swedish stock exchange. As a result therefore, we'll go back to doing a sales and new-business release, so, consistent with our peers. Certainly, internally, that's a huge relief, maybe not for some of you, but hopefully for some of you as well that will cut down on the workflows that we have to go through. Okay, so on that note, I'll hand over to Julian.

Jonathan, thanks very much. It's absolutely great for my colleagues and I to come and talk about Skandia. You'll notice on the front slide of the pack there is a little strapline; Building Long Term Value. We have been away for three days at our annual conference. If we can together this morning just give a little sense of the excitement that we have got and the plans that we have got for building long-term value, then I think we'll all go away pretty happy. Because I think, we think, the business that we have got has got huge potential and we plan to extract that potential from this business.

Agenda

What are we going to do today? The real focus of this presentation, as you can see from the timetable, [inaudible] I will try and give an overview. Then the largest part of this presentation is going to be on the UK business. As you know, the UK is around 60% of the Group. What we really want to do is to let you understand the UK business a bit more, the direction we're going, why we think that this is a cracking business and we can develop it quite significantly. Then after the break, we will give more an update of the Nordic business and the ELAM businesses. Then, as Jonathan said, we'll wrap up at the end, with Q&A.

Skandia Overview

As I've always tried to do with presentations, we'll be as honest as we can do. If there are things that are not quite up to scratch, we will tell you; we will tell you as we see them. However, hopefully, we'll get a feel for the state of this business moving forward. Let me start where one really should do, with Old Mutual strategy, because it's important that Skandia fits into Old Mutual. I think it fits in extremely well.

Skandia's Vision and Mission

Old Mutual Strategy

If Jim were here, what would he say the Old Mutual strategy is? To be a premier international savings and wealth management group, focusing, as we know, on managing assets under management, growing assets. You've heard this many times before. Assets x margin – expenses= profit. That's where the group is going and our long-term vision.

Skandia Vision

However, what is the Skandia vision? I have to say at one stage, I was a little upset that he grabbed our word premier and used it in Old Mutual, but, you know, that's always a compliment, isn't it? Skandia's vision is to be the premier open architecture investment advisor in our chosen markets. Let me just unpick that. What does it mean to us to be premier? Well it means to be the most respected, the most liked player in our particular space. What is that space? It's open architecture.

Skandia Mission

As you'll hear, going through this from the various presentations, we don't manage money. However, what we're looking to do is to first of all give access to a broad range of funds managed by other people and then in certain cases, we may package them together to give optimal solutions. However, we don't manage the money ourselves. What we believe people want is choice and therefore, we give them that choice.

We are an investment provider. The underpinning of all of this is to make sure that people get a good return for their funds that they invest through us. Therefore, that's what you're looking to do. People want to have their money managed and we believe that giving them the right investment solutions is absolutely key. Where do we do it? It is not just everywhere in the world, but it's in those markets that we think work the best for us, where the demographics are right, where we believe we can get growth.

That certainly doesn't mean everywhere, but in selected cases. Therefore, our vision is to be the premier open architecture investment provider in our chosen market. - the thing that is most important to me is, I think you could ask any of our top management team. I think you could go down one bit lower and go to our middle management and go to our staff. Everybody buys in for that vision, what we're striving to do. I think that, for me, is very, very important.

The opportunities for Skandia are considerable

What are our chosen markets? Just a few slides on demographic. Why are we in Europe? Well, as you can see on the pie chart, Europe accounts for around one-third of global GDP. It is a really good market and if you're in an international group like Old Mutual, you really need to be in Europe. Which are the countries which have the highest GDP per capita? No surprise that nearly all of these countries are countries where Skandia is represented.

Western European countries account for majority of the EU-25 GDP

We have gone for countries where there is good GDP. Let's look at it a slightly different way. We're not just in countries where there's good GDP. We're in countries where they are big and therefore, we think the prize of being of being a big player can be substantial. Again, you see, UK, Germany, Italy, France, they're core markets for us. That's where the money is.

Savings rates across most European countries are high…

Thirdly, some people have asked the question, why are you in Sweden? Why haven't you come out of Sweden? Well, you look at this. Sweden has the highest savings ratio of all the European countries. Again, the biggest countries, with the highest ratios, are key countries for us moving forward, Sweden, Germany, Italy, France and the United Kingdom. Just a taste of why Europe is very important to us.

Now, I always have to apologise at this stage. I should have charts for Latin America as well as that, because Latin America is a key market for us moving forward. It is a market that is growing really very substantially. Today of course, you are not just hearing about Europe, but our Europe and Latin America business. Rafael will talk about that. That's why we're in the markets we are in and we're comfortable to be there.

Skandia's customer proposition is clear

Let's just recap. You'll see this slide probably I think a few times during the presentation, just to show really that all parts, all 20 different countries of Skandia are doing fundamentally the same things. You know we don't distribute. The majority of the business around the group is distributed by independent financial advisors. Yes, in some of the markets, particularly Southern European markets, they're more bank-assurance markets; they are more geared towards the savings banks. Yes, that is the external distribution.

The only difference in this model would be Sweden. Sweden, like South Africa for the Old Mutual group, we have a full financial-service provision and therefore we do have, in addition, our own sales force. However, broadly the model is that we use independent advisors to distribute our products. As I've said before, on the other side, the fund-management piece, we don't do fund management. Yes, there is an exception, it's Colombia, where the market is so small that we do do it. However, overall, in sort of 95% of our assets, we don't do the fund management.

Skandia's Core Proposition

What do we do? What is our core proposition? Well first of all, we think we're pretty good at understanding the client needs. Being able to respond to a client's needs quickly and effectively is part of the DNA of the business. Finding out the right needs, the innovation and moving fast is something that we think we do particularly well. Then what we aim to do is to deliver the best possible service that we can do. The general feedback that we have from the market as a whole, in all of our territories is the level of customer service is pretty good.

Fund Selection

What do we do? Well, we look for the right investment solutions, we look for the right fund selection. It isn't just the platform, the supermarket business where we just give wide access. In many of our countries, we do more than that. We have, as I put on this slide, guided architecture, where we may actually come and recommend a number of different funds.

Product Packaging

Or we may package some model portfolios, because we think that is the solution that our customers want. One of our things that we'll come back to later is we're spending a lot of time looking at that particular area. This is to see whether there are more similarities and more things we can do to increase the value and increase our expertise and increase our offer across the whole of Skandia.

Marketing, Market Support & Relationship Building

The piece that I think again is very important, you know, a brand is a sign of who you are. We call the brand essence and I know Jim would love it to be a strapline, but the brand essence, what is actually underpinning all we do, is we're trying to enable intelligent investment choice. That is what Skandia is all about, enabling intelligent investment choice.

Revenue generation is geared to funds under management

Sources of Revenue

Again I know, hopefully to help the modelling and you'll see some of these slides repeated in each of the different presentations to give you again a feel for the sources of revenue. 65% based on funds under management, premium-based around 20% and 15% sort of fixed fees and a source of other.

Value is generated from:

What does that mean for us? It means we need to focus on sales of capital-efficient products. It means that because a significant chunk of our remuneration is funds under management, we need to focus on net client cashflows. Again, that will be a theme you will get time and time again. We want profitable growth and we want net client cashflow, because that is a real sign of the value we are providing and creating in this business.

Focus on net cash flows

Then of course, how do we want to do it? We believe we have got good sales, we believe that we will make sure, as much as we can, to keep the persistency as low as possible and therefore have the highest net cashflows. However, key and I think this is probably one of the biggest changes within Skandia. We are looking at leveraging our operational efficiency.

Operational efficiency

In the past, you had businesses doing their own things and now we're looking, how can we do it more efficiently? How can we share resources? How can we keep these expenses as low as we possibly can? How can we use other people of the group? Now, you will hear, I think you know it already, that the Selestia platform and the main platform we have going forward is built in South Africa, through the Old Mutual South Africa Group. Therefore, we're not just looking at operational efficiency throughout the Skandia group, but is very much tapping into other parts of the Old Mutual Group. We think that gives us a very significant advantage.

We are doing what we said we would do…

Embedded the Old Mutual governance framework

I'd like to take a step back from that overview and look at what have we been doing. I have to say, I am really, really pleased with our accomplishments over the last 15 months. It's easy to be glib. On the left-hand side: Embedding the Old Mutual Governance Framework, Improving Management Reporting. However, actually, I've done so many acquisitions, that it is very hard work, to try and make sure the right governance structure is in place, the right codes are in place.

Improved management reporting

I want to ensure that we have the right risk-management appetite going across the businesses, that the reporting gets into the right standard that we want. That was quite a significant amount of work. Jonathan would say, and I'd probably admit it with him, the management reporting isn't quite up to the scratch that we want it to be. However, I have to say, it's a significant improvement that we had before.

Exceeding Acquisition Targets

What you'll see going through is, this business is exceeding the acquisition targets. It is delivering extremely well. We have made very good progress on the synergy targets that we'll come back to. However, I think, let's go for some of the, if you like, softer things. We have total buy-in to that vision and mission. We are all going the right way. We have agreed the operating model. We have found a further £10 million in synergies. That is no small deal when you put together two businesses. You know, the majority of times when I've been involved in it before, revenues go down. The revenues have actually grown very significantly in this period of time and we believe there's a further £10 million in revenue synergies.

Positive dialogue with stakeholders

Skandia Liv we'll come back to when we do the Nordic presentation. A big issue for Sweden; there were 30 issues between the various companies. We only have one outstanding, which is the asset management. All of that baggage of the past, yes there has been a cost of doing it, but all of that baggage of the past is gone now. We are looking and we are moving on and we're rolling out some of the cross-border synergies and cross-company synergies. Therefore, I believe we have got a solid foundation on to drive future growth and the business really is coming together very well.

Skandia's people are motivated to work together

February 2006

I think my job comes to two things; strategy and getting the right people. People issues was a significant item on the agenda in February 2006. I won't go through them; I think you know most of them. It was common knowledge in the market of the problems that we had and the relationship between the various companies. There was also that federal approach of everybody doing their own thing. I think now what we have got, it should be at the top; we absolutely have a united management. I hope you see that through the presentations that we have today. Not only have we got the speakers, we also have the people from the different management groups here that you can mix with over the coffee breaks and hopefully at dinner tonight when you come through.

Today

We do have a united management, we do have a group-wide understanding of the tasks ahead. We have rolled out things like performance management. Now we really are and I can't understate it, looking for ways to share best practise. Let me just give you a taste and Nick will probably say it later on, a taster of where we can get that value. Best ideas, has been fantastic in the UK, hasn't it? However, it isn't just sitting in the UK. It's now we're looking at, can we roll that out in Australia? It is going to be rolled out in Sweden and Denmark. It is going to be rolled out in other parts of the European business. That's the sort of thing that we can now do and as an executive-management team we're trying to do, which couldn't have been done there. Of course, that generates huge value.

The Executive Management Team is complete

What is the management team? Most of the people are here in the room. You'll hear from Nick in a moment. You'll hear from Rafael later on this morning. Berthil Hult joins us on 6 August. I'm giving him a week to settle in. Then on the 13th, we'll formally transition and he'll then fully be in charge of the Nordic business. Berthil, very experienced man, in charge of private banking and asset management in Carnegie. He also knows his numbers well. When Carnegie floated, he stepped up and was their Finance Director. He's been on the Board of Sweden's second largest Independent Financial Advisor (IFA), second-largest broker. Therefore, he knows our market very, very well and I think he'll be a huge addition moving forward. As I said, three or four of the people on the rest of the management team are here, which you can meet later on this morning.

The operating model has been built

The operating model we have changed a bit. Skandia is not run in the same way that it was before. You don't need to because it's a subsidiary; it's no longer got its own independent listing. What we have tried to do is to give as much responsibility and autonomy to these three divisions. They have their own boards, they have their own soda. They have their own functional management teams running those separate businesses. What does that then mean is that my support team at the Skandia Corporate Centre is really very small?

Skandia Corporate Centre

What we're trying to do is to make sure and that's why we have put the Skandia Corporate Centre within the Plc box, what we're trying to do is to make sure we don't duplicate. We could have had the Skandia Corporate Centre here and then we'd suddenly find that we had another corporate centre at Plc. Therefore, you have to look at both of them together. Some of the resources that I need, I have got in my regional team and some of the resources that I need I've got in the Plc team. A lot of the finance work Jonathan does. Rosie Harris, I think, is in the back of the room on risk management, on the risk coordination work she does for me. Therefore, we avoid that duplication.

Support Services

The interesting piece is this piece at the bottom. Because the fundamental model across this company is the same and because we do not want to lose that operational efficiency, we do have support services running at the bottom. The rationale for those support services, one or two things. Either we save money or secondly, it reduces our risk and of course it may be both of them.

Let me give you an example and we have, I think it's about 150 people in the support services at the moment. Treasury, we have around 20 people in the Treasury team and they manage Skandia-wide, the group cash. Therefore, we believe we get better rate and we believe that the pooling of what we have got creates value. Networks, ELAM and Nordic, all the network management is done by Skandia IT services. HR, all of the top-level remuneration and senior hiring is done down at that level, because we don't need to build it up in each of the individuals.

As we go forward, we will keep looking to see are there more areas and there are that we believe we would do more efficiently across the companies than in each individual business. However, it has to save money, or it has to reduce the risk and therefore, these people are accountable to each of the business heads, because they're providing a service. That's the new model that we're running forward with.

The growth opportunities are considerable…

UK

A couple of slides on growth; again, really a summary of what you're going to see today. In the UK you will hear how we're leveraging the platform business to grow. You'll hear how we're reducing the underlying expenses and in the process of realising the synergies. You and we together believe that the margins aren't high enough in the UK. You can see the track record of where we're going. This business now has reached a maturity that's delivering significant cash. It's delivering very significant International Financial Reporting Standards (IFRS) earnings now and the target we have got is doubling the funds under management.

ELAM and Nordic

In ELAM, growing the business in the markets that we have chosen, looking to reduce duplication and leverage those operational efficiencies and grow, grow, grow, is what we believe this business can do very significantly. Nordic has a very dominant position in the Swedish market. The first thing we need to do is just to reenergise that business. We need to invest in it and resolving the Skandia Liv issues so we can have a very clear strategy and way forward for the Swedish business. Of course, this business has high Return on Equity (ROE) and generates a significant amount of cash. That, in summary, is what you'll hear from each of the businesses today.

…with further growth opportunities by working together

Investment Solutions

Again, just a taster of some of the things that we're looking at that we believe will create a lot of value. I've talked about the investment solutions, that fund-selection side. Not all of our businesses across Skandia have a full open access, have a platform. The question is, do we roll that platform out? Is that an advantage? Again, where we have funds of funds, manager of managers, structure of products, we believe that we can create some centres of excellence that would benefit each of the businesses moving forward. Therefore, we're relatively well-advanced in making up our minds, of how we can create a centre of excellence for the benefit of all of our businesses across Europe and Latin America.

Off-Shore Sales Model

Another taster, the offshore sales model. You know we have got, Royal Skandia, an extremely good off-shore business. However, that business has never been leveraged; has never had a good dialogue with our worldwide businesses. What we have now put together is a common strategy for those businesses, so that we believe we can get more sales and more value of selling the off-shore businesses into countries where we already have businesses. Information technology; we have already got 9 million of IT synergies coming out, largely from the shared procurement work that we have done. Therefore, we have got 9 million out of 70.

Information Technology

However, also now, we're beginning to look and we're right at the beginning, looking at the IT tools that we got, that we provide the broker and the banks. Is there a rationalisation we can do? Are there better tools in some countries that could be offered to others? It's not a rhetorical question; the answer is yes. The IT strategy, again we're now starting the process and we have only just started the process. We have now got a new group CIO, Shane O'Sullivan, who used to work in our South African businesses, although he's an Australian. He's now beginning to work on an IT strategy. Can we reduce our expenses by sharing our IT systems and doing things better?

Sharing Best Ideas and Practice

Then the last one, sharing best ideas and practice. We spent a good half a day at our conference just looking at areas where we believed that we could share knowledge and get value out of the business. Jim would say that I have broken my normal rule that you've been used to over the last six or seven years, because my rule was always to be we only would tell you about it after we delivered it. However, I think these are such important tasters of the things we believe we can do and we are going to do.

The first thing I would say, 2006 was the year when we decided what synergies and the vision for the business moving forward. 2007 and the first part of 2008 is getting those synergies out and operating in the way we'd like the business to operate. Now this is where 2007 we are looking at the long-term strategy and we're really looking at which of these types of things are we going to do. Then 2008 will be the year when we move on to actually doing them. Again, you'll see the theme coming through each of these businesses.

Strong financial performance

I'm not going to talk a great deal about these results. You've seen them before. I think the comment I would make, if you compared Quarter One 2007 with Quarter One 2005, so two years, our overall increase in sales by Annualised New-Business Premiums were 53%. I have to tell you that was way above what we expected when we went through due diligence. When I turn around and say, 'Are we exceeding what we thought when we went through due diligence,' that is the reason why I make that comment. You know, we set down, I'll come to it in a moment; we set down targets last June which a number of you didn't believe we would reach. I'll come to it in a moment, we're making good progress.

Net client cash flow

However, I want to come back to this item here. Net client cash flow of funds under management, where you can see the first quarter here. This is 6.3, over 51 billion, about 12-13%. You know, we have said it over the years, a measure for Scott's business is the net client cash flow. Are we really bringing in more money and therefore, are we getting profit on the money we come through. I don't believe our competitors in Europe. They're so fixed on the level of sales coming through. They're not fixed on whether real value is being generated. I believe any net client cash flows over sort of 10% of the assets under management is generating real value. You'll see it on each of the Skandia businesses; that is a metric we look at very carefully and is a sign of real value moving forward.

We are on track to deliver our targets

Funds Under Management and IFRS Profit

Where are we on the targets? Funds under management, we said 100% in five years; we said 15% per annum growth. That's the target. The right-hand side is code for how we're doing. You can see we're well on track with meeting that metric. IFRS operating profit, this is the one that I know many of you said, 'You'll never do that. You'll never grow IFRS threefold, or 200% in three years.' Well you can see and you can extrapolate it from the results, this one is being delivered. You know, we're extremely pleased with the way that's moving forward.

Profit Margins

Profit margins here, I won't go through the details of where it was, but in the UK, as you'll see when Simon comes up, the margins are coming through. With a significant amount of the synergies left to be done, we'll be in that range. ELAM, exactly so, we're running slightly higher than that range at the moment. Because the sales in Nordic and particularly Skandia Liv, we're below that range. We'll talk when we come to the Nordic presentation, about our views on those ranges in Nordic. However, overall, quite confident we're delivering what we said on profit margins.

ROEV

ROEV is the tough one. 15% target for us was a tough target. If I was giving a sense of which is the one out of those three that I'm just a little bit worried about, it would be their internal embedded value. That probably emanates from the lower sales that we're getting through in Sweden at the moment. However, I'm not changing that target and as you know me, I'm pretty determined that if we said it's 15%, we'll get there. That's where we are on the update on the targets.

The integration synergies are firmly on track…

The last two slides I just want to go through is where are we with the synergies. We have in the room Gavin Cookman, who is our Rottweiler making sure that these synergy targets are delivered. You can see our run rates; we have got, we have a target of £30 million in 2007 and we're running at 23. I think you've seen the breakdown between the group head office and what that split of the business is. You see there's still a lot to do in the UK, but a significant chunk of that is Selestia and Skandia coming together, which Nick and Brett will talk about. However, we're confident that this 70 million, the 60 million of costs and 10 million of tax.

However, we are well on target to delivering for around the same amount of money that we highlighted around 80.   In addition to this, we're now comfortable that we can confirm we will beat that by 14%, because there are further revenue synergies. As Selestia and Skandia, as we have come forward with the joint proposition moving forward, we have realised that coming out of both sides, there are things that will enhance the revenue moving forward. Therefore, there is 10 million that we're happy to come through.

Q1 expense synergies exceed target

It's very sad, but I think probably from your point of view, that there are some people who have known me for many, many years. In a previous company, when I did an acquisition, I put together a chart like this. This is my proof statement. I can't lose some of the finance director side of me. This is the proof statement that we're delivering the synergies and we're not squandering it. Jonathan, when we come to do the year end result in 2008 and then in 2009, will put together a slide like this. It's simply going back to the 2005 expenses; what were the published expenses that Skandia had. Let's start with a firm stake in the ground.

Adjustments for consistency

Then there were some adjustments that had to be made. There are some firm things that are no longer in our reporting world, Australia and China, that business has moved off. There were some one-off costs to do with the sale of the business that Skandia spent in 2005. We have adjusted for that to give us a base line. It is this baseline we are judging ourselves moving forward.

Inflation and volume growth

Then you've got items, inflation and volume growth, because I think it's fair, you would agree, that we do have to inflation adjust the expenses. However, particularly and this is the hardest thing, we have to go through and make an adjustment for growth, because if you're growing sales by 53%, you have got a volume increase in expenses moving forward. We have got an analysis splitting that.

Integration costs, Liv/Link agreement

Then you've got the integration costs. I've highlighted the one-off cost, which is of course that extra SEK100 million of additional administration costs from the Skandia Liv link. These then comes to what we have put an annualised Quarter-One number. You've then got the cost savings and you've got the actual. Yes, there is no doubt there's going to be a plus or minus coming in here. However, I hope you agree that that's the way that I have always managed synergies. It is the proof statement that we are actually delivering it and we have got everything under control.

In Summary

Finally, before I hand over to the main part of our presentation for today, the UK presentation, we are doing what we said we would. I am extremely pleased with the progress we made. Demographics, as we have seen, are favourable for growth. We have got a good product offering. We are in the space, as you know in the UK, we're in the space that everybody wants to be in. We aim to be one step ahead and to keep one step ahead of everybody. Business is scalable with excellent growth prospects. We believe we can leverage quite a lot across Skandia and then with Old Mutual as well. The economics of the business are good and the results are on track for 2008. I believe we have got a pretty good foundation for growth moving forward and I hope at the end of the day, you will too. That's enough from me right at the very beginning.

Thanks very much, Julian. Good morning everybody. The one thing I think Julian started off in some of his opening remarks, talking about what it feels like today to be part of Skandia and particularly part of the Old Mutual Group. I hope that you'll get a sense today within the UK team, as an important part within Skandia, but also within Old Mutual, that we feel proud, we feel confident and we feel excited.

We feel proud because actually we have delivered an awful lot in the last 12-18 months. That sense of delivery is important to us. It's important to you, I'm sure, because you want to see those numbers coming through as we move forward. We feel confident because we have got a very clear sense of what's happening in the market for the future. We don't clearly know exactly what's going to happen, but we feel very confident that we're moving in the right direction. We feel excited because actually there's a lot of potential in this business. This is not just in the businesses that I look after in the UK, but actually reaching out to combine with the other businesses and the other areas of Skandia and more broadly within the Old Mutual Group. That feels good.

Context

Our little programme today runs as follows. There are going to be, just going back to Julian's comment a few minutes ago, there will be an opportunity for Q&A, questions on the UK section of the presentation at the end here, under the summary. This will be then just before the coffee break. There will be a chance, but I think one of the most valuable elements of these kinds of meetings is actually not sitting listening to me, even sitting listening to Julian, but it's actually the coffee break. Therefore, the coffee break is your chance to come and clarify, come and ask further questions.

Market Perspective, Skandia's Proposition

Particularly, I want to introduce some of my colleagues here in the room from the UK business, some of whom you'll be hearing from the platform and some of whom, please, I'd invite you to go and talk to during the coffee break. Brett is going to be picking up on the UK market perspective, Brett Williams. Do you want to just stand up so people know who you are? Brett is CEO of the UK provider businesses, Skandia MultiFUNDS. Some of you will recall our funds platform in the UK being brought together with Selestia, Selestia Investment Solutions, you will hear about and Brett will talk about today. He's running that business.

Platform & Demonstration

We have also got today for you at little taster of what's going to be coming up in our new integrated platform which we're launching in July. Ali Everett, who is our e-commerce marketing manager is just going to take you through some of the functionality, that if you happened to be a

Skandia Investor, or you might like to be a client of ours in the future, that you might be able to make use of or your advisor could make use of on your behalf.

Recent Performance & Synergy Delivery

We also have Simon Lloyd in the room, Simon is my finance director. He's going to be talking about some of the numbers, the performance and the synergy delivery. One or two other people that I'll just highlight. John Tomlins, who was previously with the team at Selestia; John is really responsible for delivery. It's IT; it's building that infrastructure together for the integrated platform and it's service delivery to all the businesses in the UK. Somewhere in the room is Billy Mackay, Billy Mackay is our Head of Product Marketing. If you're interested in our opinions about where the different product segments are going and how we're responding to that, Billy is your man. That's how we're going to go through.

Immediate priorities have been secured

One of the things I was interested to hear Julian talk about was doing what we said we would do. Now that's really important. It's important personally to me. We get set challenging targets, but I want you guys to know that it's really important to us to hit those targets. I'm not saying we will hit those targets, because they're challenging, but if we don't hit them, it hurts and we will feel that. We're committed to make sure we deliver on those targets. I almost didn't put this slide in the presentation. I didn't put it in, because it feels historic; it feels like we're past that stage. However, I think it's important that you understand where we have come from in the last 12-18 months.

The first opportunity we have had since June last year. This, for me, is doing what we said we would do.

I used to talk about this last year as the four cornerstones, the four things that if we didn't get right, moving forward under Old Mutual's ownership, then, you know, we wouldn't be making full use of the potential we have got. I'll start at the top-left corner, which is about organisation. The challenge of coming within the Old Mutual Group was to reconfigure our organisation so that we fit within the Old Mutual governance framework and the Old Mutual model. It's a model that works well for us, because it's a decentralised model. My interpretation and I'm sure Jonathan and Chris Collins here at the front will tell me if I've got it wrong. You know, there's a high degree of responsibility for reporting, for transparency, for delivery on targets and performance and doing what we said we would do.

If we do that, then we will have some latitude in our local markets, to set our strategy, to decide where the areas of values are and to go after them for our customers. We will then come back and continue to meet and beat the targets that Old Mutual's set us. That works well for us. We have reconfigured. We are reporting in the way Old Mutual expects, which is more reporting, more often, more frequently, quicker. All of those things are things I think we are responding to.

It has also meant a change in the organisation, so it has meant a change in the senior team. You will see that in the course of today. There's some old hands, people like me that have been in

Skandia for 18 years and there's some new faces in the team. There's our talented colleagues from Selestia, who set up that business from nothing in 2001. There's some brand new people to the organisation. What we have been doing is actually binding that together over the last 12 months into a really effective team. We're working well together; we have a common sense of enthusiasm and commitment to what we're doing.

Identify and deliver the UK synergies

Let me go top right and that's the synergies piece. You've heard Julian talk about that. Quite quickly after the acquisition was completed, Jim and Julian were on the phone, saying, 'You know we have been talking to the market about 60-70 million in synergies. Well, Nick, we want you to deliver a big piece of that.' It was quite clear that pulling the Selestia and Skandia businesses together was an opportunity. However, really important that we didn't do that in a way which compromised the model.

Protect and grow "business as usual"

We have taken great pains to ensure the steps we take to release those savings are consistent with building a fitter business to accommodate more growth for the future. That is what John over there spends a lot of time doing, making sure we have got that efficiency and the scalability. Bottom left, right, well again that conversation earlier on was, you know, we want you to reorganise to fit the Old Mutual model. We want you to hit those synergies to contribute to the total that you saw Julian put up. However, by the way, Nick, don't stop growing.

Organised for future growth under Old Mutual ownership

Now, I don't know if you know, I'm sure you study these things, but on average, or even at best, in mergers of the businesses in the IFA space, one plus one equals about, what, 1.4? You know, the intermediary market tends to want to demonstrate its independence, tends to want the two businesses to come together; it tends to be looking to see whether they've got that balance right. That is not happening here. All of these changes, the integration, both the Skandia and Selestia businesses, we have kept both of those moving along and they are both growing. We haven't yet even seen the benefit of putting those both together and that's what we're really going to talk about today.

Agree and pursue the long term ambition for Skandia in the UK

The fourth one, which is bottom right, is almost the most important, because if we get those three in place, in a sense they mean nothing unless we have a vision and a pathway to the future. Julian talked about the Skandia vision, which clearly the guys in our businesses have contributed to, to be the premier open-architecture investment provider in our chosen markets. You know, that's really dear to our hearts as well and we're consistent with that. During the rest of today, hopefully, if nothing else, we can convey a sense of our ambitions in the UK market.

All the key ingredients and a crucial head start on the competition

Julian showed some slides with value chains on them and all I want to do here is really two things. First of all to demonstrate, I hope, that as we operate in the open-architecture space, it has been our niche for many years and it is now the market; it's the mainstream part of the market. Everybody is converging into that space. What makes us special? Well, I think this slide tries to capture that. It's that we have more components than anyone else. We have the key ingredients to deliver in that market. We have some barriers to entry which will prevent others from rapidly replicating what we have got.

Skandia UK & Offshore "Key Ingredients"

Let me just go through that very quickly. We began, clearly, right in the middle of that value chain. This is about providing choice of access, flexibility through independent distribution, back out the other end, if you like, to independent asset managers. That was a product-packaging role that we could play and it was attractive. We have got those different tax wrappers, so that the life business, with unit-linked life and pensions. We have the fund-platform business, where you can buy mutual funds.

They might be tax-sheltered within Individual Savings Accounts (ISA), Personal Equity Plans (PEP) etc. We also have the wide open architecture offerings such as Self-Invested Personal Pensions (SIPP), but also the off-shore personalised bonds. That's the whole range of tax wrappers which, you know, we think puts us in a strong position. It's an established platform; we're well known for it.

We have an increasing user base, both from a usage point of view and a technology point of view. However, what we have done over the last few years is extended our brand, if you like, or the way we play, both down and up the value chain to try and capture more of the share of, more of the experience the customers and advisors have and frankly, a bigger share of the margin.

Bankhall

Down the value chain, we have Bankhall. Bankhall, for those of you who don't know, is a business that provides support services to directly-organised IFAs. It is not an IFA; it does not carry responsibility for advice to any consumers, but it provides compliance, technology, business development and support to all those IFA businesses. It puts us close to the IFAs in the sentiment.

We deliver a lot of business to the market beyond the Bankhall membership, but the Bankhall gives us an interesting position today. This is particularly where there's renewed interest amongst providers and amongst other investors in the distribution space. As we move through the distribution, the retail distribution review, you know, this is going to give us more options. Bankhall gives us some interesting options in how to approach the market, both in staying close to what IFAs want, but also to help us provide a rounded proposition to the advisors and their clients.

Skandia Investment Management

Also, I just want to say up the chain, so into the fund-manager space. We have now built a fantastic business which is a multi-manager capability. People build multi-manager funds now that is either fund of funds or it's manager of managers. This business is very flexible; it does both of those things. We even have hybrid offerings which do both. They have funds inside and they have segregated mandates inside. You know, that is really helping to crystallise another part of the offering. I'll come back to that.

Leverage

However, I also just want to touch on the two points at the bottom which are the barriers to entry. We have 40 billion on the platform which is invested through third-party asset managers. The next nearest competitor probably has around 10. This gives us huge leverage with the managers that we deal with. It means that we have legal agreement; we have preferred terms, if you like, with those businesses, which give us great pricing flexibility.

Brand Equity

We also have the barrier to entry which is our reputation in intermediary space. You see lots of companies trying to be different things today to the intermediaries. The IFAs, they want to see reliability, responsiveness, over a period of time. Yes, you can earn that reputation, but you don't get it in a month, or a year, you get it in five years of consistently delivering that service. I see that as a really important head start for us in this space. It is no more than a head start, because if we stayed still, the competition will clearly catch up and they will start to overtake.

Sustain leadership through continued innovation

What do we do? We do two things. We grow and we innovate. Those things are actually connected because in the intermediary space, we know that our customers have choice, the distributors have choice. If we don't have the best product, they'll choose somebody else's. We have to keep innovating. All I would point to on this choice is a long-standing record. The pattern is innovation, creating, bringing out new ideas, new concepts taking the model forward.

Way back on the left-hand side there, you can see 1984, when Skandia first created the idea of Multi-manager. There were six different managed funds from six different well-known investment brands. The model is completely different today. When you see the integrated platform, you will understand that.

Strong net flows – not APE – drive value

The next point I want to make is about the way we look at the industry sometimes. If you look at the industry league table in the UK, we look at APE, don't we? We look at the new sales. We often will look at the league table, because I probably look at it more than you do. At the top, there are companies like HBOS, there's Aviva, there's Legal & General, there's Standard Life. Skandia come in at probably about eight or ninth, about the same as Friends Provident, with AXA and others lower down.

For me, that is the wrong league table. You know, that is not the way we will be looking at the market in 3-5 years' time. It's wrong for two reasons; it's the wrong measure and Julian touched on this. It's not about the money coming in the front door; it's the money that you're stopping coming out the back door. It's the net flows are going to be so important going forward.

If you compare with those other businesses and you look at that ratio, which I'd encourage you to do that, calculation, you know, the net flows of the UK business in Q1 were 1.2. You know, divide that by the funds under management and do that calculation for the other players. Standard Life in Q1, I believe were 0.5 billion net flows. They might look bigger, they might have a bigger front door with business going through it, but they've sure got a big back door and a lot of business going out through there. That's an important point. We also have a number of businesses and I'm not going to talk to all of them today, because we haven't got time

Three open-architecture businesses with rapid growth in own-brand solutions

I want to focus on the UK piece, but the international business is a really interesting business. This is providing off-shore and we are joining up, as Julian said, with the other off-shore businesses in the group. Old Mutual International, which is based in Guernsey is being brought within, with Royal Skandia. This is with the Dublin company we have, with the company Skandia has had for a number of years in Liechtenstein to actually be the off-shore managing centre for all the businesses. I'm hoping that Rafael Galdon later, if he doesn't say it, please ask him. We're in a process of working out how we can be deploying those off-shore products in his geographies to much better effect.

Asset Mix

You can also see on the right-hand side the way in which those assets are invested. The majority there, 34 billion, is external fund management. Increasingly, that top piece, which is our own-brand funds, is popular. Let me just talk about that quickly before I hand over to Brett. The Multi-manager model is the way we run things at the moment. This is how we present it. Either we say you choose, so this is the open-architecture, the IFA makes the selection.

Or increasingly IFAs don't want to make that choice. They sense compliance risk. It's confusing; it requires administration, attention and review. We can actually provide those choices for them. It 'de-risks' their business, but importantly, it translates, it transforms in fact, the pricing structure from a discounted retail pricing structure to an institutional pricing structure.

If that sounds like mumbo jumbo, let me just say that on a typical active-equity fund, the difference between discounted retail and institutional rates can be 30-40 basis points. I hope I've got your attention. The gross margin on the platform business nowadays is typically around 25. That difference is really important. Do we drive it? Do we impose it as some businesses do and say to clients, 'You've got to have this one, because it makes us more money?' No we don't. It's a pull, not a push and they have to demand it. Those funds critically have to provide the quality and the returns to the end investor.

MultiManager includes sourcing self-select funds as well as supplying own-brand blends

Blending simplifies investment choice for advisors

Here's a quick summary of that. This is why increasingly IFAs are choosing those blended funds. They're de-risking the business and out-sourcing it back to us, to actually take away the client risk, to reduce their administration, because we're rebalancing. We're hiring and firing the mangers to make sure that those funds are producing quality returns. The most recent example of that and another great example of our innovation is Global Best Ideas. You may be familiar with the fund. It's just gone through its first anniversary and I'm not licensed to give unauthorised investment advice, but look at that performance. It's really working.

Driving innovation in fund management, eg through Global Best Ideas

This is a simple concept. 10 fund managers, they each pick their 10 best ideas, so the whole portfolio is 100 stocks. Those guys are falling all over themselves to be part of that team. You know, this is about the ego. I'm sure in the fund-management business, there are some prima donnas out there. There are people who do not want to be left out of that top 10. This is really, really interesting and it's captured the imagination.

Rapid build-up of long-term value

I just want to finish on this slide, because this slide is about creating shareholder value. What this slide, the message in this slide, without going into detail as to how it's put together, is indexed embedded-value performance. We have adjusted for dividends; we have adjusted for rights issues and so on. However, the main point that I want to draw your attention to in this slide is that the Skandia line is going up. Okay, that's the take-away.

What you might be doing is, you might be looking for patterns. You might be looking for a pattern which says, 'Well it goes up when the market goes up because, you know, it's an equity-linked business. Or it goes up when some of the other with-profit scandals are going on, because of course, the platforms is of benefit." There is a pattern in the slide and the pattern in the slide is it keeps going up. It keeps going up because of the growth and the innovation that we keep bringing to the customer. There's nobody better in our business to talk about what we're doing for the customer than Mr Brett Williams, so Brett, over to you. Thank you.

The UK market is trending in Skandia's direction

Thanks, Nick and morning everybody. I'm going to talk about the market perspective, a bit about the market, a bit about the proposition and then something about the new platform. Then I'm going to hand over to Ali, who's going to talk a little bit and show you some things that we're doing with the new business. On the market perspective then, if you look at the title of that slide, it says the UK market is trending in Skandia's direction. I think the UK market is moving very fast in Skandia's direction actually. One of the things that has been consistent from Skandia and Selestia is we start off with the market. We're not trying to tell the market what it should be doing. We're starting looking at the market and we're providing solutions based on what the market is actually asking for.

If you look there, the first point, platforms. The demand is focused on creating and managing client relationships. That is a significant change. The demand used to be focused on products which were clever and which IFAs could sell which had tricks in them, which were opaque. That's not what's happening now. The market is moving to and IFAs are moving to relationship-based models and away from transaction-based models. The demand for full Wrap is not yet proven. We'll come on to that again in a second, because I think there's a lot of talk about Wrap. Not many people understand what they mean by Wrap, but there's very little evidence to me that this demand for full Wrap is yet actually in the marketplace

Distribution, the IFA channel will remain resilient. Well s60% of the business goes through IFAs and we believe it's going to carry on that way. From a product point of view and products are still important, although they're part of a solution, they're part of a relationship. Retirement solutions are becoming a critical demand driver. I think A-Day has been a very significant, or has had and will have, a very significant impact in the marketplace.

The impact is about the fact that people go to IFAs and they say they know they're not going to get a pension from an employer any more. They know they're not going to get a significant pension from the Government anymore, so how do they actually retire? A-Day said, 'You can put a lot more in, you can put £225,000 in this year. You know, you've got a lot more flexibility, there's simplification.' However, it puts in people's minds, how much do I need to retire. They go to IFAs and say, 'What should I do?' IFAs are then going to come up with solutions and not just products.

Historically they'd say here is a pension that will solve your pension needs. Well it doesn't, because if you think about it, you're trading off tax against ease of access. If somebody goes into an IFA with £225,000 for the retirement provision, they're probably going to put some in a pension because they're going to get 40% tax relief. However, they're going to put some of it in an ISA because they've got instant access and they've got tax benefits. They're probably going to put some in cash. Therefore, what the IFA is doing is creating a retirement solution which needs a plan not just selling a product.

Products themselves are giving way to platforms, because if you've created that solution, the client wants to be able to see what it is at any time. He doesn't want lots of different pieces of paper coming from lots of different product providers. He wants to see it in one place and that gives the client piece of mind; it takes away an element of uncertainty.

Platforms are growing significantly and they're outstripping the traditional typical product providers. Consumers and IFAs are demanding ever more sophisticated financial planning. If the client's demanding it, the IFA's got to provide it. The IFA's got to provide it in a saleable way, because for their top clients, I think IFAs have always done financial planning. However now, they've got to do it for a much wider range of their clients and they need help.

From an investment point of view, open architecture is thriving. Julian and Nick both talked about open architecture. We believe that and I believe firmly that, you know, the days when one provider, one asset manager, could provide a waterfront solution are over. Clients don't believe that a one provider, one asset manager can do that either. Therefore, it is a blend and what platforms allow you to do is to switch between those funds in a simple way.

Having said that, there's an increasing demand of bespoke and blended solutions. That was what Nick was talking about from a Skandia point of view with Skandia investment management. If you think about IFAs, when we first launched Selestia, we talked to IFAs and we had 200 funds in the platforms. The IFAs all agreed that 200 funds were sufficient, but actually they all thought they should be a different 200 funds. Therefore, you end up with about 800 funds in the platform, which has now grown.

Advisors are moving to a relationship driven model

Interesting, what happens when you get to that stage is that IFAs, a lot of IFAs, decide they want help deciding which funds they should choose. For some IFAs, they go further than that and they say, 'Actually I can see that my role in the future is as a relationship manager, as a financial planner. I'm not really very good at doing investments. You know, I'm not an asset manager; I'm not an investment expert. I'll out-source that.' They do that increasingly to companies like SIML. Therefore, that's a big advantage for us. A lot of that is about 'de-writing' the advice process. It's a huge theme for IFAs. There are different risks in getting investment advice. IFAs need help in de-risking that.

Now this is probably my favourite slide actually, because I think it looks at the market as a whole. It says advisors are moving to a relationship-driven model, which I've just mentioned. However, I think more than that, it actually could say this is the slide that shows you how you can get profitable growth in the UK market and sustained profit or sustainable profitable growth. When people or other commentators talk about the market and they talk about transaction-based, they say, 'That's one model.' Then they talk about financial planning and they say, 'That's the other model,' as if it's either one thing or the other.

Now the reality is transaction based, which could be sales led and is often called product led, that's the history. That is when products were opaque with big tax relief on different kind of products. The IFA's job was mostly to navigate through the complexity of the product. The truth was that investment came second and it came a long way second because the tax breaks were so great that the investment didn't really matter. Well, that's history. That doesn't happen anymore.

You're driving along that way to financial planning to relationship-driven advice. Why's that? It's different reasons. The first point is, clients are demanding it and that's a very important reason. Clients want to know they've got a relationship with the advice and not just that they're doing a transaction. The second point is that technology, to a large extent, has enabled that. Five years ago, it was almost impossible to manage a client's Wrap portfolio, because just to get a valuation was so difficult.

You know, if you had a range of different funds from different products, it could take you weeks to get valuations, which made it very expensive. Well now, electronic valuations are the norm. You know, from a Selestia point of view, up to, you know, still actually, until we bring the two things together, nearly 100% evaluations are electronic. From a Skandia point of view, nearly 90% of valuations are electronic. It's a huge, huge move. Those kind of things have allowed IFAs more time to actually concentrate on doing the review, so the market and technology but also regulation.

Thematic Trust Fund (TTF) has made, it hasn't made a big impact, it's starting to make a big impact. However, things like the Financial Services Authority (FSA) saying to IFAs, if you've got with-profit products, if the client has got with-profit products in their portfolio, they have to advise them. They can't ignore them; they can't just leave them redundant; they've got to advise. When you think about it, if an IFA has actually given advice on, let's say, consolidating some of these unit trusts or PEPs or ISAs or whatever it is. They've gone through a sophisticated process of asset allocation. They've gone through a risk profile to make sure that the client knows, you know, the risk they'll be taking and the portfolio that's been generated takes account of that attitude to risk.

How can you on one side have that kind of sensible portfolio, sophisticated portfolio for one part of your planning, one part of your overall assets? However, leave the with-profit stuff where it is or actually leave the unit-linked fund-managed stuff where it is. From a with-profits point of view, one of the biggest drivers that I think is going to move people out of with profits is that actually, the asset allocation of a with-profit fund is nothing to do with the attitude to risk of the client.   It's all to do with the attitude to risk of the provider. Therefore, the asset allocation can move with actually the client having no influence on it whatsoever. The IFA has got to manage that process. It's going to lead to change. It's going to lead to the moving of money away from it. I want to come on to that a bit in a second again.

If you look at that, so that's the old world. The new world is the holistic financial-planning world which people talk about a lot. Now, I see some evidence of holistic financial planning, but to be honest, I see by far the majority of the market being in a transition. Its transition is along the way from being transactional to being relationship-driven. IFAs take their income in a different way. Most of their income, most of many IFAs' income now comes from trail fees rather than from upfront commissions.

They're being paid to manage the relationship and they've got to demonstrate value. That's not the whole market, because there's a large part of the market that has actually moved out of pure transaction and it's going along that way, but it's going more slowly. However, there's actually only a small amount of the market, I think that's really in that holistic financial planning. You can see that from who's successful in Wrap. Transactor's successful in Wrap actually, in a small niche way.

However, you know, it's a small niche business. It's a successful small niche business, but others who've moved into that market, who spent hundreds of millions of pounds, have got no benefit whatsoever. Therefore, I think that platform, the hundreds of millions of pounds, is a desperate move from some of those old-fashioned players to moving to the future. I think they've missed the present. They've missed the present, because most of the business is being written in there, most of the value is in there. It's transitioning along.

We have seen that Skandia over the years, Skandia led that move. Therefore, the open-architecture move away from just the single fund manager, Skandia have led that for a few years now. However, others have followed, so most of the traditional players who are in that marketplace have tried to add open architecture. Now I think they've done it in an unsophisticated way as a whole, but some of them have caught up. The unsophisticated part of it is because they didn't actually do it from an investment point of view, they just added other funds without really concentrating on the investment content.

What's happened in the last few years and Selestia tried to, you know, it's an interesting dynamic for us, Nick, isn't it? It's also for John and I, because John and I, five years ago, were in competition trying to attack Skandia's space. Now we're putting it together to grow it for the future. However, we have tried to take the Skandia model on a bit, because we felt we had the advantage of using technology; we could start from scratch without any legacy. Julian talked about the fact that we use the Old Mutual IT capability in South Africa. I think, Julian, without that, we wouldn't have been able to get the business plan through you, would we? That's the reality. That's a very important kind of starting point for us.

We moved it along a bit and we moved it along by adding more funds, using technology to a greater extent by focusing very hard by trying to get the IFA to concentrate on transacting online for example. IFAs typically will say that they don't like technology. They don't trust technology because it doesn't work. However, what we proved with the Selestia model was that they could make it work for them and it reduced their costs. It allowed them to have a better relationship with their clients because it saved them time. For example, John, I think it's 86% of our business now from a Selestia point of view; it's done online. That's a huge, huge difference from the rest of the market. It saves IFAs money and it gives them more time to manage the relationship.

What does all that mean? I think it means we're in the sweet spot of the market. . Nick says we have got a head start and I think he's right. However, I don't think there's anybody else in the market actually who's got that unique combination of the two things, what Selestia was trying to do and what Skandia has very successfully done. I'll come on in a second to what we're doing to actually take that forward again, because we're not standing still here. We have got a head start, but we're not standing still. We're not standing still because we're listening to the market and we're doing things that we believe the market wants. We're doing things that we believe can build, you know, sustainable, profitable growth. There are people who are in this space around here who are building growth, but it's not profitable and I don't think sustainable. That doesn't work for us.

Now is the time to exploit migration of assets to platforms…

This is an interesting slide because if you want to say 'Where is the profitable growth,' well, if you forget any new businesses are ever going to come into the market, the profitable growth for us lies in here. Those models are old-fashioned and IFAs are going to move money away from them. Those traditional life-and-pensions providers are going to suffer huge outflows. You know, there is no question they will suffer outflows. This is because unless they can do something internally to keep the money, that money is too expensive, the management is too expensive. It's old-fashioned and the investment content of it is not good enough for the 21st century. There you see open platforms, 54 billion in 2006; I think that was a Mintel figure. Well, it's bigger than that now and we have extended that. They're saying it will be 256, or rather Adnitor are saying it will be 256 billion by 2010. Who knows?

However, I do know we will have a very significant chunk of that, because what we're doing is not having dreams of where the market might get to. We're giving IFAs things that they want now. We know we're doing that because we asked them. It's an interesting conversation they had with many IFAs is they say they want to have Wrap. Therefore, I say, 'Tell me what Wrap is.' What Wrap is to them is things that make their business work better. It's things that help them manage their relationship with the client. It can be simple things like using technology. It really is a simple thing, but it matters.

Using technology, for example, to change a name and address. Why would you send five letters to five different companies to change a name and address when you can just do it online. Or it can be more complex things like giving them sophisticated investment tools which save them time and allow them to give better investment solutions for their clients. That's where I see a huge amount of our growth coming, from those companies. The net asset, the net position of a lot of those traditional life-and-pensions companies over the next few years is going to be dire.

…while platform users are growing rapidly

Now, this chart's an interesting one, because I think it kind of sums up why we have got a head start, why we're in a sweet spot. If you look at this, what we have called, the red line there is the transaction-based IFA. In other words, the IFA gets paid for the product; it really isn't interested in the long-term relationship. Well, you can see that this is an independent piece of research from a company called NMG[?]. They're suggesting that it's going to trend down quite significantly.

I think it will trend down, but the important point for us is, there's still a lot of business being written there. A lot of people who are moving from the old-fashioned kind of with-profit unit-linked-managed fund world into the relationship-driven world are going to start off with Skandia Life & Pensions. They're going to be putting money into that and that's a profitable business for us and it's going to continue to be. We're in that space and we can improve what they're doing. We can help them give better investment advice and we can help them move their money to us.

The solutions based, which is probably the middle, the transitional part of what I talked about, that part of the markets going to go up. We're in exactly the right space for that. The holistic financial planners and as I say, this holistic financial planning, you know, it's a difficult phrase because it means different things to different people. However, if that market's moving up, they're not just going to put money in Wrap, they're going to put money in platforms, because platforms do what they want it to do. When you think about adding what should we add to our functionality, we will add all the time, because all the time you're getting demands from IFAs for new things and from clients for new things.

However, what will we add? Will we add, for example, access to direct equities or would we say we'd be better spending our time creating more sophisticated retirement planning tools. I think we'd be better spending our time creating sophisticated retirement-planning tools. That's what helps the IFA to do business with his clients and to get and keep his clients. Then underneath that, we have got the functionality and the proposition which helps him to manage that going forward.

Skandia is in the "sweetspot" of the UK market

Our proposition to the market then. We have talked about being in the sweet spot of the UK market. Julian talked about the strategy and our vision of where we want to get to. That vision is because that's where we believe the market is. It's not something that we spent time dreaming up in a room for ourselves. It's kind of saying, 'Well if we're going to win in this market, what do we have to do?' That's why it exists.

If you're looking at the customer, what's the customer looking for? Well, he's looking for choice, or she's looking for choice. People don't, as I've said, they don't just want one fund manager, they want a range of fund managers. They want a range of different tax wrappers, because whatever investment solution they want, they want it to be tax-efficient. They want transparency. You know, we have had a whole period of years of scandals going on which have led people to say, 'I want transparency; I want to be able to see through it to what it actually is.' They want transparency.

This flexibility is, I think, kind of a whole market issue. People want to deal with financial service companies in the way in which they run the rest of their lives. They want to be able to do things like, you know. An example I use often is, if we all decided we fancied going to Barcelona this afternoon, we could get somebody to get on the Web now and book us flights. That's what we'd do and we'd be ready to go. We wouldn't need a ticket, you know, we'd go to the airport, we might need a passport, we go to the airport, we get on a plane. If we changed our minds 10 minutes later, somebody would get on it, do it again. If we wanted to get some shopping, you know, you can do that here.

People are used to, in their lives, being able to do things which technology allows them to do and which financial services historically hasn't. Giving them flexibility to get valuations at the touch of a button, you know, to switch at the touch of a button; things like that are important to IFAs and their clients. They want quality investment solutions. Increasingly, they appreciate the value of advice. This isn't everybody and this is the opportunity for the market, I think. IFAs who are managing the relationship with their clients will get more clients. You know, they'll get more client because they'll build more trust. What we're trying to do is give them tools that will help them do that.

IFAs need to, you know, they need to provide a partner. A few years ago, the concept of a partnership between IFAs and providers was a kind of, was one that made us smile, because we knew that the partnership was that the IFA got everything and we got nothing. It's different now. It's different because IFAs realise that they need to rely on people. When they're building platforms, they realise, they're careful, because the more business they put on platform, the more dependent they are, so they need to be able to trust.

They want tools and technical know-how. Now from a Selestia point of view, one of the things that always drove John and I mad in the marketplace was that Skandia had a great reputation because it delivered. This was not just in the product, not even just in technology, but in things like technical tacks and trust knowhow. Skandia helps IFAS to do business in a sophisticated way. Blending that with technology and with the other things we have got, it's a huge advantage to us. We shouldn't underestimate that, because it's a kind of franchise in the market that nobody else has got. I can't think of anybody, Nick, I don't know if you can, who comes close to that in the marketplace. We'll see some evidence of that I think, later on.

This is because they want to create lasting value in the customer relationship. If they do that and by doing that, I think they will remain as the dominant channel. I think there will be some changes in the IFA marketplace going forward. However, third-party financial advice and that will remain dominant.

The open-architecture platform, it is a scalable platform. The work that we have done in the platform, the work that John has been really leading, making, you know, driving in South Africa, John, driving people to create the next phase of the Investia solutions model. A lot of that is about scalability. It's not something you'll see, but it's something that's real, because we know we need to get it scalable because we'll get a lot of business onto it.

IFAS need to trust that it's going to be scalable; it's not going to fall over. They want to have a range of quality investment solutions, but, you know, that choice does include not being able to choose, so being able to out-source it to somebody like SIMUL, Skandia Investment Management is I think going to be an increasing advantage for us in the marketplace.

At this point the A-Day isn't just A-Day. You know, it is driving people to think about consolidating their assets, because want to know, they want the uncertainties taken away. They want to know, will I be able to retire at a point in time. If you ask most people and if you ask yourself maybe, if you've got assets all over the place, do you know, you know, how much it all adds up to? Do you know; is it all on a plan? Are you on plan or are you not on plan? People want to know; they want certainty. They want uncertainty taken away.

This significant relaxation in contribution limits actually means that pensions, or the pensions wrapper, is attractive again. If you can put £225,000 into the wrapper, as you can, that makes it attractive. However, for wealth clients, once you come to 1.5 billion, you've got to do something else. If you still want the income, you've got to do something else. I think you want to see it as part of a plan. That proposition fits with what the IFA is trying to do because it fits with what the end client wants to do.

Focus on areas with high growth and low capital risk

Now, where are we from a product point of view? Where are we based? Well, that circle around that, around the mutual funds, off-shore bonds and pensions, that's kind of circled for two reasons. One, because it's our space and two, because we're saying it's a range of products; it's not just one product. We're not in the annuity market; we're not in the with-profits markets. Oddly, from a protection point of view, we are, to an extent, because a lot of our business is based around inheritance tax planning. Therefore, that's an exception. However, we're in those markets because we believe we have got some expertise on them and we're passionate about them. We believe, you know, we get competitive advantage; we'll get growth from those markets; that's the sweet spot for us.

Going back to the point I made already, what IFAs want and what clients want is investment solutions. Now investment solutions include products, but it's not just the products. You've got to have a wide range of funds. You've got to have asset allocation and risk-management tools, I believe. They're going to continue to be a driver in the marketplace. They're becoming commoditised, although we're leading that market. Five years ago, nobody had asset-allocation tools; now they're really important. IFAs have changed our business around them, but we have got to keep developing that.

Mix of ingredients creates "investment solutions" proposition

You must have a consolidated view across all products. Investors do not understand that, insurance companies say to them, 'We won't look at you as a person; we'll look at you as a product.' It doesn't make sense. You need to have consolidation.   The blended solution, this is what SIMUL gives us, world-class blends from fund managers, crafted to match different attitudes to risk. People understand risk. I think when the tech went wrong, people understood that not all equities were the same and they've remembered it. . You know, they've remembered it and you often hear people saying, 'I'm not greedy, but I do want a good return.' Well, that's not a particularly scientific measure and we can help make that measure more scientific.

The deep technical expertise, IFAs adding value are going to do so around things like trusts and estate planning, around pensions and retirement planning. A-day was great because it talked about pensions implication. The trouble with anything that simplifies anything is actually in a way it creates more complication, so they need help with that. As I said, we spent a lot of money and we're uniquely well-placed in the market currently, you know, to deliver that.

Nick was saying we have got a head start and people could challenge that. However, it is harder to start that; it's harder to come into the market and start to challenge that franchise. I'll tell you I know that because we tried to do it, you know. When I look at what we have got as a package now, I think that's a really important part of what I think the solution is. Service will be a key differentiator.   This is a challenge for us because it's a challenge for the industry; it's a challenge for us. I think service will be a key differentiator and we have to get scaled through technology, not just through people. That's one of our challenges, but Skandia's reputation as a five-star service provider, we have got to maintain; we have got to build on.

That final point there about trust. IFAs have got to trust. They've got to believe you'll still be around because otherwise they won't use them. You know, it's as simple as that. We do have a very strong reputation with advisors and we have got to leverage that moving forward. It's when you put all those things together that you get the investment solution, not just when you look at a product or any one part of it.

Industry leader in key attributes for advisers

I think we're in a very strong place in the marketplace. I really do think that that place, understanding that the market is transitioning. Working with IFAs along the transition, not telling them they're right or wrong, working to help them along with that transition is what we should be doing. That's how we'll add value. This is just an interesting piece of research that we have done. Amongst our advisors, we're ranked first for innovation, service funds, range of funds and commitment to the IFA channel. All those things are important. All of those things drive an IFA to trust. I'm just going to move on a bit now to the platform and then Ali's going to do the demonstration.

Most providers in the UK have missed is that we are actually in the 21st century. Technology in the 21st century is different. We have to use that technology. Any successful business in the 21st century has got to use technology to help it. It doesn't mean we're a technology business; we're not. It means we're using technology to help us win in the marketplace.

From a consumer point of view we know that consumers use, you know, they see technology giving them choice and flexibility. They see much better, much quicker service and they see much better advice. If, for example, you're using sensible investment tools to help create the financial or to help back up the financial plan, they understand that it matches their risk, their appetite for risk.

Advisors, they've got more time. John and I used to talk John's thing was always, we would be happy if our advisors had a telephone, a browser and thick, deep carpets. They weren't messing around with pieces of paper; they were spending time with their clients. Getting rid of some of the inefficiency of paper is a big thing here. We talked about tools to help them with the advice process and helping them by giving them an audit trail in the advice process helps with their risk in compliance. It helps them understand, be happy, you know, that they're giving good quality advice.

Form a Skandia point of view, all these things, I think, lead into a different model in terms of customer attention. In an old-fashioned world, where IFAs were paid on transactions, if you kept the money for seven years, you were probably quite happy because they'd move it. Now, you're on a platform where you're being paid for, the most of your income is going to come from the trail fee. There's actually no reason for you to move the money. If you've got somebody who starts investing when they're 40, what they're going to do; let's say they're investing for retirement.

Probably 40-55, they want a growth strategy. They want their investments to grow, because they need o build that pot up.

55-60, if they say they're going to go at 60, you probably want to protect what you've got. You don't move the money away, you change your portfolio. You have a protection; you go more into cash than you would have been previously. 60, traditionally you'd have gone into an annuity, you'd move the money somewhere else; but you don't need to on a platform. You'd change, because now what you need is an income portfolio, so you keep the money. If somebody's got to 60, they're probably going to live to 90, so, you know, unless we mess it up, we have got that money for a long period of time. That's a really important factor for us, building value and building profitable growth.

The IFA's business model is more efficient so they've got greater, sorry, the IFA's business model is more efficient, or business model is more efficient and we have got greater scalability. As a non-financial person, even I understand that bit, lower expenses, higher volumes, higher margins, you know, that's good, that's what we want. Therefore, that's the drive.

E-business benefits key stakeholders

I would say one thing about technology. This is something that we have learned and we're going to, it's a good piece of learning in the marketplace. That is, you have a constant battle in a business, between the marketing people who say the technology must be usable and the operational people who say 'You must get it used.' The truth is that unless it's usable, you won't get it used, but just because it's usable doesn't mean it will get used. You have to focus on both those things. It isn't enough to have usable technology. You must, as a business take on board that you've got to get it used. That means training; it means training our own people.

It means, and there plenty of people who will say, Nick, as you know, will say, technology, you know, IFAs will never do that. Well, they will. They will if you encourage them, if you show them how. We have got an IFA, one of the top IFAs up in Scotland, who was absolutely adamant that he wasn't going to do anything to do with technology. Well in excess of 95% of his business now comes electronically. It's not just that, you know, that's just the transaction. He's bought into the fact that it makes his business more efficient. However, we had to spend a lot of time convincing him.

The fact that we have got people within Skandia who are used to dealing with IFAs and IFAs are used to talking to us about how they run the business, I think gives us a big advantage in actually persuading IFAs to move down this route. That is a win for everybody. We have got to get it usable, but we have got to get it used as well.

The consumer advice cycle…

This is what it all comes down to in a way really. This is the consumer advice cycle. What does the IFA have to do with a client? Well, they've got to understand the client; they've got to create solutions, but they've got to research funds, construct portfolios, manage the portfolios, review.

They must probably change the portfolios and they've got to manage their own business. How are we going to help them do that?

… drives Skandia's e-business model

Well, understand the client, you know, the client-risk analysis.   Write business electronically. Well over 60% of applications that come to us on paper are wrong, you know and that costs everybody money, including the IFA. Build a portfolio, flexible remuneration. Now some of the reasons people have said that Wrap is going to come in is because it helps fee-based advisors. However, if you've actually got flexible remuneration, which we have, you don't need Wrap to take a fee. You just decide that you take no initial commission and no trail. You charge a fee. Therefore, you must have flexible remuneration.

You want to review, so you've got a portfolio review and you may want to do bolt switching. Let's just say that Anthony Bolton leaves Fidelity or decides not to manage that fund. Many IFAs will make a decision at that time that they want to move all their money out of that fund into something else. They want to do it in a way that is scalable and works for them. They do not just want to send off lots of pieces of paper. Those things for us are just examples of how we're helping IFAs manage their business.

Selestia Investment Solutions creates a leading edge proposition through "best of both"

This is where we get to, so what's going to happen in July. In July, we put the two platforms together. When I was first given the task of putting these two platforms together, the first thing I wanted to do was to see how they were different and how they were the same. What is the crossover? The feedback that we got from IFAs, which was absolutely consistent was, the Selestia IFAs said, 'Don't spoil what you've got with Selestia.' The Skandia IFAs said, 'Don't spoil what we have got with Skandia.'

When we start to talk about what that meant, the Skandia IFAs were absolutely insistent that they mustn't lose the Extranet facility which Skandia had. This enabled them to manage the portfolio on an ongoing basis. The Selestia IFAs were equally adamant we mustn't lose front-end capability to do the transactions; we mustn't lose that. That is actually quite a fortunate place to be, because what they're saying is, 'We like the front end of one and the back end of the other.' What we have done is put them together, which sounds very straightforward, John, doesn't it? However, it's a bit less straightforward than that in practise. That has been the battle.

Skandia e-business has led the industry…

When you see here some of the things that, what does that mean? Well, look at, there's portfolio review and management. You can do that from a Skandia point of view currently; you can't do it from a Selestia point of view. Now, we always knew from the Selestia point of view that we had to do that. However, in our drive to profit, it was what should we do first? We went down the straight- through processing route first, because we could see that that was actually a quicker way to get to profit. However, we knew that we were going to get our demand.

Bulk switching, which we have just talked about; we didn't have that facility, Skandia do. Then the Client Extranet, the ability for the client to go in and review their own portfolio, look at the valuations for themselves. Those didn't have that at Selestia, did at Skandia. However, from a Skandia point of view, the range of funds, a lot of IFAs think the range of funds were too small. They didn't have the audit trail which we had from a Selestia point of view. You couldn't transact new business; you couldn't re-register.

They didn't have some of the investment tools that Selestia had. They didn't have the flexibility to work with the client to decide how they took their remuneration, whether it was all fees, a mixture of fees and commission, they didn't have that. Putting those things together is where you get to with the Selestia investment solutions answer.

… creating an increasing base of loyal users

That is the most, you know, there is no question in my mind that that is the most fully-functioning platform in the marketplace today. It is the thing that is going to actually help IFAs to manage their business. You know, it's real stuff, so it's not a dream, it's real stuff that they do. We know it's real stuff, because we know they're writing it for us all the time. That, ii think, puts us in a unique position in the market place, adding what we have got with the existing Skandia Life and Pensions business.

Put those two Things together and the IFA chooses where he goes. We don't tell him; the IFA chooses where he goes. We don't have the legacy of with-profits from the past. We don't have the legacy of, you know, lots of unit-linked managed funds from the past. We're right in the sweet spot. We're right in the place where people are transitioning. They can go at their own pace and we can help them. That is, from my point of view, that is the most exciting thing about where we are currently. The synergies are important, but actually the excitement's in the growth. I'm just going to hand you to Ali now, who's just going to take you through a little bit of a demonstration and a bit more evidence.

Overview of Selestia Activities

Alison Everett, E-Commerce Marketing Manager

Brett Williams, Head of UK

Good morning. Today I'm here to talk to you about the latest development from Skandia, which is Selestia Investment Solution. We have been doing innovative e-solutions for advisors over the last 10 years. If I take you back to 1998, when we started, we started with three simple solutions, of valuations, switching and the client Extranet. We have seen innovations likes portfolio planning tools with YouSelect. They were one of the firstones in the marketplace. There is also Skandia Wrap, where an advisor can see all of his business with Skandia and manage it in one place.

I wanted to give you a flavour if just how much people are using this. If you think that Skandia produce, in a year, over 1.8 million valuations, 85% of those are done online. That's not an insignificant figure. 60% of all our switches are done online. YouScan[?], our deep, in-depth analysis report that goes under the skin of a portfolio and lets an advisor know exactly what's going on with the assets. Over 2,000 of those are created a day on new and existing business. Now over those 10 years, we have managed to build up a loyal user base of advisors. We get nearly 16,000 advisors visiting our site on average 10 times a month. We also have over 53,000 clients registered for our site.

Skandia's e-business model

With the consumer advice cycle that Brett alluded to firmly in mind, what I wanted to do is give you a flavour for the services that advisors will see when they visit Selestia Investment Solutions. If you imagine that you're going to take out an investment with Skandia and you're going to talk to your advisor about it, the first thing your advisor's going to need to do is understand your needs. What is it you're trying to achieve with your money? What are the goals that you want to be able to hit in the future? What they need to do first of all is understand you.

What we do is provide tools to help that process, a risk-profiling questionnaire that the advisor will take his client through, or take you through. They will be asking you things like, you know, how much have you got in your, how much have you got in liabilities like mortgages. How much have you got in savings? What is your attitude to loss? At the end of filling out that questionnaire, it will give you a risk score. Now that risk score actually ties you back to an appetite for vulnerability. There's science to the advisors' recommendations. Throughout all of that process, there's an audit trail, so that the advisor's got proof of the steps he took you through that helps with compliance and risk in his business.

Going back to the advice cycle, the next stage in the process would be to actually come up with a recommendation for you. What are the right solutions to solve the problems that you face? Once you've got what could be a selection of product wrappers, it needs to be underpinned by an investment portfolio. We also provide advisors with the tools to build that portfolio. They can choose to build a portfolio from a range of different building methods. That could be our optimised portfolios that are based on Watson Wyatt statistics. It could be industry-consensus models like OBSR. Or they can choose to build their own.

Having got to the asset allocation, they can then research the funds available to them. Now there are over 950Funds. That's a really big choice to try and drill down and actually get to the ones you want to populate your portfolio with. We give the advisor over 20 different data items to actually base his research on. That can be things like Citywire ratings; it can be performance statistics, alphas, betas. There should be something for everyone.

That's going to customise the research funds page that they're going to look at. Then what they have to do, because they've actually got 950 funds, is drill down and they're going to do that by applying filters. They could say that they're interested in funds that have a double-A rating or above. That will narrow down the selection of funds for them, so that they can actually make their final choices.

There's the portfolio created for you. At this point, the advisor can produce a range of comprehensive reports to back up his recommendations. Those reports will provide each step of the process, so it will give the answers to the questions that the advisors went through in the risk profile. It will give details of the method that he used to actually build the portfolio. Then it will give the research items and the filters that were applied to actually come to that final point where the portfolio is built.

That's talking about an advisor creating a portfolio for you on a one-to-one basis. However, what we want to do is to make it easy for advisors to manage their book of business. What we would like to do for them is actually give them the ability to group their clients tougher and manage them in that way. If you imagine, the advisor could build a range of portfolios across that risk profile, so there is one there to suit his cautious investor, a balanced investor and an aggressive investor. Then what they can do is actually link groups of clients to those portfolios and manage them at that portfolio level. We'll make a change to the portfolio and it will automatically filter through to all the clients attached to that. They can change 40, 50, 100 clients in one go.

Also taking that a step further, Brett spoke about the fact that, perhaps Anthony Bolton, you know, that change happened; everybody was very interested in finding out who was investing in that fund. If we look at an IFA business with an average of, say 160 clients, 25% of those clients could be in one fund. What the advisor can do, using our system is get a list of all the clients in that one particular fund and that takes a couple of clicks. Then say you want to switch them and move them all in one go. Now, if you think the average switch might take five minutes; that's going to save them three hours in time for that one transaction, saves him time, makes his business more efficient.

This has just given you a taste of the rich functionality that is going to be available to advisors through Selestia Investment Solutions. It's going to benefit all the stakeholders in this partnership. It benefits the consumers because they're getting better informed compliant advice. It benefits the advisor, because he's able to service his clients quickly and more easily. It also benefits the shareholder, because we have a scalable platform where we can cope with large levels of business and we have the capability to grow going forward.

Competitive Advantage

We have also got competitive advantage. As I said, we have nearly 16, 000 regular users already converted to the solutions that we offer. Now they're going to be able to take advantage4 to Selestia Investment Solutions. Therefore, Selestia Investment Solutions takes the best of both Skandia and Selestia and gives the advisor the UK's leading e-business proposition. Thank you.

Conclusion Brett Williams

I think that's trying to give you a taste of what we're doing. Technology is key, but it's not enough. We have got a good head start in the marketplace, we're in the right place, but we know that actually delivery is the most important part of all. Being in the right place is not enough, making it happen is what we have got to do. We have got a history of doing that, Nick and we're pretty determined that we're not going to waste this opportunity now. Okay I'm going to hand you over to Simon, who's going to talk, as it says there, about performance and synergy.

Simon Lloyd, Chief Financial Officer, Skandia UK

How is Skandia UK driving Shareholder value

Thanks Brett. Good morning. There are various things that I am obsessed about as CFO of Skandia. One of them is, as you'll be pleased to hear, I think, is actually enhancing the financial performance of our business. That means two things to me. One of the key things it means to me is making sure that everybody who is actually working in the business can understand what they individually can do to improve that performance. I was going to, well I will make a little joke at Brett's expense as he's all too used to, on the basis that he had actually caught it on his own slide where he was talking about reducing expenses.

Improving funds under management and improving margins actually will result in improving the financial performance of the business and ultimately shareholder value. I'm trying to do that across the business and we have got a structure in place in Skandia UK now, which gives me, individuals working in every single business unit, the ability to work with their CEOs to actually do that. We have got a really strong structure in place that is improving and going to lead to further improvement in financial performance.

We report on an embedded-value basis; we report on an IFRS basis. However, one of the many things that's come through, moving into the Old Mutual world, we have had this level of clarity that has actually come to the way we're actually trying to do it. I wanted to give it such clarity to it; I wanted to put it right at the bottom of the slide. We are focusing on this formula of looking at assets, looking at the margin we're delivering on those assets. We are controlling our expenses to make sure that we are actually improving that financial performance and improving the profitability of our business.

Looking at each of those elements in turn, what are we doing in terms of the funds under management? We are continuing to grow those funds very aggressively as was referred to earlier in the comments. We are also looking after those assets and making sure that they are not going out the door too rapidly. We are also looking at how we improve our margins. That's both the upfront margins that we are getting, the annual margins and also how we work with the investment managers in terms of the rebates that we receive as a business.

We are also focusing very firmly on how we are actually controlling our expense base. We gave commitments with regard to the synergies that we are delivering, but we are managing both the costs of actually putting that business onto our boots. We are also managing the cost of keeping those businesses on our boots in a very focused way. As you've seen from some of the points that we have seen already today, it's through the really strong use and powerful use of technology to do things more effectively and more efficiency.

I'd also draw your attention to the last comment here is what we do is we do an eye out for risk. Rosie, who's at the back, will probably be very pleased to hear that, but we are taking very sensible risks in terms of the way we are actually trying to manage our business, the way we use technology and the way we drive expenses out. I would like, over the next two slides, just to show how we have had a track record of doing that and relate that to some of the changes we are making in the business that will improve the performance that we have had over the last few years.

Strong net flows driving growth in Funds Under Management

If we move and we look at what's happening to funds coming into our business and how that has worked. Now, the first slide up here is showing you actually what's happening to APE. Traditional measure, one of the ones we're familiar with. Again, we're just indexing it against what's actually happened in the market. We can see that Skandia has consistently been able to out-perform what has happened by market growth. You'll see that that is something that's continuing. It's down to some of the things that we have got down here.

We have got a leading proposition and we are creating a proposition that will keep us way ahead of the competition. We give top quality service; we have received rewards year in, year out, for how we are servicing our intermediaries to make sure that meets the standards that we require and therefore we're going to be able to continue to perform well. We keep coming up with these innovative flows of fund solutions. Nick previously talked about the launch of the Best Ideas funds and Julian was talking about how that's being extended more broadly across Skandia.

Funds under management are growing strongly and have been growing consistently. You'll see in the Q1 release and also in the figures Nick was showing earlier that we're up at 39 billion at the end of Q1. Therefore, the actual sustained assets, the held assets within the business is growing. Again, reinforcing the message earlier, what's our trend in net client cap, net client cashflows? We should come up with something that's easier to say than net client cashflows. I always get my tongue tied on that one.

We're growing very, very strongly. You've got to remember that one of the benefits that actually came through in 2006 was the obvious knock-on effect of A-Day, which obviously led to a boost there, but good growth continuing in Q1. Strong funds under management and strong inflows coming into the business.

Fee income accelerating in line with FUM as improving asset-based margins offset fixed fee component

However, it's not just getting the fees in; it's what's actually happening to and what are we gaining on those fees. That's where I'd like to draw your attention to this chart. We're looking at what is the actual fee income that we're receiving. Julian earlier was talking about the level of fee income we get that's directly related to funds under management. It varies slightly between the business units. 55% of our fee income relates directly to the funds under management.

The other thing in terms of how we continue to grow that level of fee income ties into the other two points that I've got on the slide. We have had very, very long relationships with these fund managers, 23 years; we have had this multi-manager solution. No other people in the industry have had that kind of track record. That means that we actually have a much stronger relationship and a much longer-lasting relationship with those organisations, which enables us to actually continue to do better, hopefully, than the competition.

Increasing scale and expense discipline are pushing down unit costs

However, key also is what are we doing to the cost base. This is an excellent way of actually just showing to you and highlighting to you how we are controlling costs. Acquisition expenses over APE, we're growing the business. You can see the top-line growth, but are we just seeing that it's costing us more and more to put an extra pound of business on our books. The answer is no. We are seeing a clear decrease and a clear relationship. As we grow, we are actually seeing those economies of scale coming through in the business. Also, we're continuing to control the costs of the funds that we are managing. Again we're seeing a very powerful trend there in terms of how those costs are coming down.

Long term value now emerging as distributable earnings

Now, it's all well and good actually generating IFRS profits, IFRS profits. Nick showed you that we have actually created significant embedded value over the years with Skandia. However, what is really encouraging to me is, we're beginning to show that we are actually creating some real cash that is coming out of the business to be used more effectively. This is whether it's be used elsewhere in the group, or to be paid back to shareholders. We look here; this is what the IFRS profit's been doing in 2005 and 2006. Clearly there was no IFRS results earlier than that; we weren't producing them then.

What is that doing in terms of cash? Now, the distributable earnings that we have got in here, which is our proxy for cash. This is looking at the regulated businesses and to the extent that the surplus is existing in those businesses, it could be released. That is growing very, very strongly, particularly in Skandia Life. It's gone over that tipping point; it is now creating significant levels of cash which will be emerging and will be available.

Good progress towards 2008 margin targets

We made commitments on 20 June. I was going to be slightly uncharitable and say people made commitments on our behalf, but we have made commitments on 20 June to deliver certain things. One of them was actually to ensure that the new business profit margin and this is on an embedded-value basis, value of the new business over APE would be moving into the region of 11-12% post tax. We are well on the way to doing that. We can see down here that the trends of what actually came through in 2005 what the result was for 2006 and what's actually coming through in 2007. The lack of decimal places doesn't help in actually showing that we're still going in the right direction, but we are going to be able to hit the target here of being between 11 and 12%.

You can see here very clearly the actions we are taking to do this. It's not that we haven't, we're sort of hoping that things will turn out right. We are taking really clear actions in terms of, once we have changed the basis, we have got very clear things that are going to come through from the impact of the synergies that we are delivering. We have also realised and started to fully accept that there are certain costs that we should be bearing in our business. Those are reflected in terms of the target that we will actually achieve. I'd like you to feel assured that by 2008, which is the commitment that we had, we will be there in terms of delivering the additional margin.

On target to deliver £28m synergy benefits by 2008

Then the last thing I wanted to talk about was to give you further reassurance with regards to 20June about what we're doing with regards to the delivery of synergies. We have committed to getting £28 million worth of synergies. When you looked at, June showed as a lovely, I was going to describe it as a waterfall chart, but since it went up and down, it wasn't a waterfall chart. However, what it was showing you was the cost base in 2005 and how you could see that we have delivered synergies. Now, that is something that we, as a business unit, are doing to look at precisely how we're doing. We have got a similar one for Skandia UK and my colleagues have got similar ones for ELAM and Nordic which shows what their proportion is.

We're tracking and making sure that we do, at a business-unit level, we did in Skandia UK, we did actually deliver this. Now we have already delivered 5.8 million. All the work that we're doing in terms of projects and you've hear from Brett just then in terms of what's happening with regard to the Snuffle-Selestia work; they are all on track to deliver. We have had four major elements in that. There's the UK Head Office, a relatively minor point in terms of some of the construction that we're able to there as a result of the integration. We have talked already about this.

These are really encouraging other elements to the programme and John will quite happily answer questions if you want to go into any detail on them. We are looking at how we streamline our process. We are examining again how we can take time and effort out of those processes to reduce costs and there will be significant savings emerging from the Business Process Re-Engineering (BPR) programme that we have got working across customer services and in our investment administration area.

Finally, in terms of IT outsourcing, we signed an agreement from1February. We're in the process of rolling that out and eventually 'off-shoring' that piece of work as well. The commitment we gave on 20 June, to deliver those synergies are right on target to actually be delivered. Now I'll just hand you back to Nick to bring things to a close and move on to questions.

Summary Nick Poyntz-Wright, Head of UK

Thanks very much, Simon. You've been a very patient audience and I think it's a measure of our collective enthusiasm for the business and our interest in informing you about it that we have slightly taken too much of your time. Please forgive us for that. You're probably itching to get up and stretch and have some coffee. Can I just beg your patience a couple more minutes and then we'll hopefully we can have some time for questions.

One of my former colleagues in Skandia in Sweden, when I was demonstrating all the shareholder value we were creating in those days, used to say to me, 'Nick, you can't eat embedded value.' I always remembered that expression. I think this is a really important slide, because you can see how quickly our business is growing. You can see the net client cashflows coming in and you can see the growth in terms of embedded value that I showed earlier. However, what this is saying is, we can actually do that and we believe we can continue to do that; we're converting that value into cash.

This is my summary, if you like, but the way I want to position it is as follows. I would set out to you and all my colleagues would agree. We think we're really well set to be a long term winner in the UK market. We think we have got all of the ingredients we need. We have got the commitment, the enthusiasm, the support of an ambitious parent in helping us to move that business forward.

Why should you believe that? In order to really think that Skandia's going to be that winner in the long term, that we are going to change that league table. This means it's not looking at APE and it doesn't have all those established names in it and we're at the top, then I think you need to believe these four things. If there's one slide that you're going to rip out of the presentation pack and take hope, this would be a good one. You need to believe that we're in the sweet spot of the UK market; you heard that from Brett. You need to believe that assets are gradually migrating and I think quite quickly migrating from the old world. This is not just with profits, but the unit-linked management funds of the past, into an open-architecture platform. That's the part that's going to grow.

You've got to believe that we have got all the ingredients that you need to be successful in that space. These are: to carve out a wider space for our brand to occupy in the value chain and to add value for customers and clients, taking advantage of that critical head start and moving forward. You've also got to believe that we can continue our track record of growth and innovation. Keep bringing new products to market so that we're the choice for the customer and the advisor.

Skandia set to be a long term winner in the UK market

Just in conclusion and this is the piece I've already done. If you believe us that we'll believe that and we'll go out and do it. We're going to redefine the industry league table, you know, we're going to be on top of that league table in 3-5 years' time. Most importantly, the value that we create along the way is not going to be imaginary or intangible, it’s going to be coming through in cashflow to use elsewhere in Skandia, Old Mutual and obviously for the benefit of shareholders. That’s the end of the UK piece. Thanks very much for your patience and I do apologise for taking up more of your time.

Questions and Answers

Greig Paterson, KBW

Unusually, I'll ask just one question. I wonder if you could help solve a dilemma that I have. If you look at Skandia versus standard life, Skandia has about, if you look at SIPS and bonds, there's about 30 billion under administration and Standard Life has about 67. You've got similar commission structures, similar charging structures. You're booking a margin on APE pre-tax of 15. Any booking on those two product lines in excess of 20. I know they have more internal funds, but the margin, I believe, on internal and external is pretty much the same once you adjust for rebates.

I wonder if you could give us some insight on your thinking why. I mean, it seems a very odd situation; they've got much larger economies of scale, but booking much higher margin. Does that mean that sometime, if you move to a similar basis to there you could book through a sort of 25-30% increase on the margin?

Nick Poyntz-Wright, Head of UK

Well, I'll just make a very quick comment and maybe Simon will want to follow up from a margin perspective, you know. We're very focused on the efficiency of the business and I have to be honest, but go back five years and go back to when Skandia was interested in growth. We're being very clearly guided that it needs to be very profitable growth. We have got some clear targets in terms of improving those margins. I'm quite confident that when we get to 2008 and we record the margins that we're asked to produce, there'll probably be a more challenging target beyond. We are getting those efficiencies out. Simon, do you want to comment at all?

Simon Lloyd, CFO

I was going to make a couple of comments. I think comparison in margins between companies, there's going to be imperfections in there. The things I always look at is what's going to be happening afterwards. You look at the margin in Year One, but what's actually happening to the operating variances afterwards and how are we controlling those. I think it is in both in the Skandia environment and it's been reiterated in the Old Mutual environment. What we are trying to do and continually trying to do is make sure that we are operating with favourable operating variances emerging, not adverse operating variances.

I think that is in terms of what we are doing and I think. When you're really looking at margins, the other thing I'd look at is the trend over time. What we are continually trying to do with our margins is continually improve them and therefore look at the trending. With more focus on what we're doing, we're looking at our margins as they are at the moment and we're preparing them consistently. We are consistently improving them and making sure that we actually end up with favourable operating variances afterwards.

Risto Ketola, Deutsche Bank

You mentioned bringing Old Mutual International and Royal Skandia together, which makes sense, but you never mentioned Old Mutual (Bermuda), which is another very big off-shore business that Old Mutual has. I mean, is there no sense in bringing those together?

Simon Lloyd, CFO

I think it's everything in time and due course. I mean, what we have focused on very much up until now is getting Skandia working and getting Skandia working efficiently. I would say probably there's a little bit of resistance from Nick and his colleagues of bringing Old Mutual International into the offshore frame because there is an awful lot that we have still got to do that we haven't done. In due course, then there'll be a discussion between all the different off-shore businesses, because remember, Nedbank have also got off-shore business. We'll try and see are there any further benefits coming. It's on a stage in the longer term. We can't do everything all at once and we're focusing on the things at hand.

Risto Ketola

Maybe a better question is how different is Royal Skandia from Old Mutual in terms of target markets, distribution channels.

Nick Poyntz-Wright, Head of UK

I think they are quite different, although, you know, we have certainly had a lot of discussions with our colleagues in the Bermuda business and there area where I think we can work together successfully. They've tended to focus on a distribution channel through banks, so forming partnerships with banks and helping the banks to actually white-label the Old Mutual (Bermuda) product. This is actually a very attractive product and it has sort of structured product features within.

This is, you can buy those sort of funds or products within the Royal Skandia offering, but really, Royal Skandia is trying to be a very open wide platform. It's more going; it has historically more gone after the expatriate high net-worth investor, or the local high-net worth investor in various markets. Actually, there isn't a huge overlap, but we're certainly having conversations with them.

Simon Lloyd, CFO

I think, Roste, I mean its good actually have a number of different offshore businesses. It's stating the obvious; the world is so large. There is a huge amount of growth that we can get from the off-shore business here and Old Mutual International. Actually, synergies would be very small.

Andy Hughes, JP Morgan

Quick question about the sweet spot in the UK market if I may. One thing I'm not sure about is the impact of the variable annuities that have been launched in the UK on the Wrap market. Obviously, you're talking about a scenario where people select investments. Investment choice is very important. Whereas if you look at the UK market where Variable Annuities (VA) dominate, the Wrap market seems to be less evident.

The other part of my question would be about high net worth versus mass-market on the platform. Currently, it sounds like a high net-worth platform. How do you see it moving down into the mass-market.

Brett Williams, Head of UK

I think the variable annuity market is interesting, because I think, you know. One of the things we're looking at in terms of our customer proposition is that, you know, 'decumulation' is obviously going to be a huge factor going forward. I think we'll look carefully at that. It's new to this market, but we're looking carefully at that. I think you will see, you will see some.

Markets are different, aren't they? Therefore, there are things that will be attractive, things that will be less attractive, but some kind of different products around decumulation that I think we will have and we will be interested in that. The mass market and the high net worth, they're difficult. It's difficult where you draw the line, isn't it? I think this; increasingly IFAs are moving more of their clients onto a platform. It depends where you actually take the measure. I would say, you know, this is one of the reasons why platforms as opposed to a full wrap are attractive, because a wrap really is for somebody who's got, you know, large assets.

We would see people with 30,000 of capital come onto the platform, you know, because they're consolidating maybe a few years' ISAs or something like that. For them, the benefits are the same, you know, it's just the same, but you know, it s the same percentage, but a lower amount, then it is for more high net-worth clients. However, then you do see the opposite of that happening where we're really into the space of private banks. A lot of the IFAs we're dealing with would feel they can compete with private banks now because of the, you know, the features that they've got on the platform. As a result, we're seeing a lot of very, very wealthy people come onto the platform.

Ragu Hariharan, Fox-Pitt, Kelton

Two questions on distribution, if I may. The first thing is, firstly you talked about trail commissions. I was wondering what is the percentage of fee versus commission mix in your remuneration to IFAs? Aligned to that, the second question is, have you done an assessment of the impact of the FSA's retail-distribution review, because that is obviously could come down heavily on offer and commission on a lot of products.

Nick Poyntz-Wright, Head of UK

Let me just talk briefly about the distribution review and Brett, if you want to pick up the point about trail and so on. The retail-distribution review, the FSA's going to publish a discussion paper, we think, in about a week's time. It's going to be interesting to see what's in there. We have been involved in the review. I've been sitting in one of the industry groups; there were five streams of work. Peter Mann from the Bankhall business has been closely involved through Association of Independent Financial Advisors (IFAs).

In one sense, I think broad picture, the FSA with the retail-distribution review is trying to help more customers to save more. That's really around the mass market, which is not particularly our space. There is a desire, I think, to improve quality in the IFA space, so certainly some of the things that come out will relate to that. Overall, we don't know quite what's going to come out, but I think the ambitions of the FSA are very much in line with ours. Remember the transition side that Brett showed and the way that the IFAs are moving increasingly towards having a long-term advisory relationship with their clients.

Actually, that's what we want to see come through and the FSA I think would like to see that come through, because they want that advice to continue. They want the clients to have that continual review. They also want to see the commission model move more towards the trail-based and the fee-based. Brett, what's our experience there at the moment?

Brett Williams, Head of UK

Our experience is that more advisors are moving more to trail to taking their income by trail. I think in the marketplace, there's actually a very small percentage of advisors who actually work on a true fee basis for all their clients. There is going to e, I suspect, a lot of activities around fees again now post the review. When I was talking about what we were doing with the platform moving forward, the Selestia Investment Solutions platform moving forward, one of the key bits of that, the key elements of that is to allow IFAs to determine how they take commission or fees. If they want to take no trial and no initial commission, just a fee, they can. However, that's really, we're leaving that to the IFA.

I agree with Nick, we're seeing and it's in everybody's interest, I think, that the remuneration for IFAs becomes much more based on the relationship. This is because our relationships are aligned then, aren't they really? The client's interests are also aligned. I think the fee, whether it comes from trail or somebody writing a check, it's still not clear and I suspect we're going to have a big explosion of kind of press comment and industry comment over the next few weeks. However, what I see is a very strong trend to getting paid for the relationship. It's either by fee or it's by taking trail commission. Actually, from our point of view, it doesn't really matter. You know, we'll allow the IFA to do either or encourage them to do one of both.

James Pearce (Cazenove)

Just follow up on that point, could you just be clear about how much financing strain you're bearing on the commission? I mean, how close are you to factory-gate pricing, that kind of thing, because it would explain the margin point?

Brett Williams, Head of UK

Certainly, the Selestia model has been, I mean, I wouldn't necessarily call it factory-gate pricing. It depends what you mean, but it's been, the cost of the commission's been reflected in the charges immediately applied. On other parts of our business, Simon, we write regular premium business. The commission levels, the strain levels on pensions, regular premium, have come right down. Most of the pensions business we write is single. On the single-premium business there's very little strain. You know, the paybacks would be fairly short. Do you want to answer that?

Simon Lloyd, CFO

No, not really. I was just reflecting on the stuff we were looking at earlier this week in terms of paybacks. They were coming in at about 3-5 years on the single premium.

James Pearce (Cazenove)

Therefore, you are paying initial commission which is not recovered for several years, is that what you're saying?

Brett Williams, Head of UK

That's one model, so if you like. Over the last few years and this is an industry, not a Skandia model, on a lump sum investment, the market has been moving from 7%, sometimes 8% upfront commission, to three plus one half. I think it's now moving at three, three plus a half to the sort of one plus ones, or even zero plus ones. You know, those are the kind of areas where the new platform, with all the flexibility in the remuneration models is really going to help.

David Danilowitz, JP Morgan

A comment and a question. First of all, your slide on cash and cashflows is very useful. I'm not sure if you're going to get it for all the businesses and if not, I mean, just on a regular basis if we're going to get a feel for where the cashflows are going for the business. Then, just coming back to the point about margins. Obviously a key question there is persistency assumptions and it would explain why there would be different margins in the market. We're talking about a relatively new product in the market as a whole, a lot of competitors coming in. How are you making persistency assumptions going forward and into the long term? Do you have a long-term average policy duration that you can give us?

Nick Poyntz-Wright, Head of UK

Just very briefly on persistency, you know, the point about affront door and back door, you know, money is moving around the industry. We're not immune from more money going out the back door. In 2006, the operating variance Simon was referring to on persistency in terms of embedded-value assumptions was zero.

In Quarter 1 (Q1), it was zero, so those assumptions are sort of bearing out in terms of the experience. However, obviously we adjust those over time. We've got a number of measures in place by which we hope to improve persistency further and actually we happen to think that the proposition of this new platform is part of that. The other point to just bear in mind as well is that a lot of the business that today is in Selestia and within Skandia MultiFunds – the £10 billion that was one piece of the three different open architecture businesses I have put up - is not covered business. So the margin calculations as we normally think of them don't apply. However, we're driving more towards this assets times management minus expenses as profit and, for clarity, the margin in that sequence is not the same margin. It is a basis points on assets, not a percentage of annual premium equivalent (APE).

Participant

Dave, I can assure you, having pushed net client cash flow (NCCF), yes, that is disclosed, but the other business is and will be done regularly.

Participant

On the one final point, you gave the split. 55% of your revenue's coming from asset fees and obviously the rest. Maybe a feel for what the rest is and how it's broken up premium versus rest versus other? Again, a further comment, it would be useful to have that going forward because that is a key driver of putting a value to the company.

Participant

I won't dive in and answer that question because I don't hold those sorts of percentages just at the forefront of my mind, but I can certainly get that analysis because, yes, we have it.

Participant

That's a helpful comment. Right, we've almost used up the whole of the coffee break. Any last couple of burning questions and then we'll break for, I think, probably 10 minutes?

Youssef Ziai, ABN AMRO

You said 55% of fee revenues directly linked to funds under management. Could you perhaps give a rough figure for what percentage of expenses is related to funds under management?

Participant

Not off the top of my head, I won't, no, is the answer. I can't just, I'll try and think what it would be but I'll refer back and come back to you with a full answer.

Participant

I think it's probably not much is the answer in the sense that obviously the bulk of the costs of the investments is outsourced. I mean, that's a separate element. Now, how that features in the expenses line in the International Financial Reporting Standards (IFRS), I'm not sure, but in terms of our operating expenses, of course we've got to create those accounts, we've got to manage those individual funds, so there is going to be a piece of it. However, maybe Simon can come back.

Chairman

Okay. A last question for now? We've always got a chance to come back right at the very end of the whole session. Anybody else got a burning question? Okay. Well, let's have, I think a 10-minute coffee break and we'll start again at 11.00. Thanks very much indeed.

Background

…error on it and on slide 27, I don't know how, but there has been a transposition error and that 2005 – well, it's not a transposition error, the number was wrong – on 2005 expenses, start at 564, not 587. I know you've noted that 587 minus 33 does not equal 531, so a minor typo in that, to which you have my apologies. So, hopefully it was useful for you going through the UK business - the lion's share of the business. Now what we want to do is a brief update on the other businesses, starting with Nordic. The Nordic presentation is going to be three people. Per Wahlström, who is just going to stand up. He is in charge of our Denmark operation and also the healthcare business and most importantly at the moment, he is running the strategic planning process that we are going through. Then, Marita Odelius Engström, the Nordic Finance Director and, in addition to that from Nordic - we're slightly thin on the ground because it's Midsummer's Eve tomorrow and therefore, as you know, that is a very special day - but we've got Marek Rydén, who's in charge of the unit-linked business and Marek will join us for questions.

So what is the business that we've got in Nordic? Jim talks about Sweden in the same way he talks about South Africa. It's not just the open architecture business, it is a waterfront business because in Sweden we've got the unit-linked business, we've got a good and profitable health bank business, we've got the Internet bank - the direct bank. We've also got mutual funds and, in addition, we've got traditional life – and I'll come back to that in a moment. In Denmark, we have basically the same without the banking, and in Norway, the main business we've got there is banking.

Both in Norway and Sweden, we are the number one direct bank. We're the number one Internet bank and we seem to get the awards year in year out for that banking. In Finland, we have a small healthcare business and the largest business is a unit-linked business, but that is treated as a division of the UK and therefore is in those numbers rather than in our numbers. So, a very strong presence in the Nordic countries.

Overview of Nordic Division

Skandia Liv

The first thing, just to get very clear before we go – and I am going to go into more depth on Sweden – is the situation in one of those businesses, which is Skandia Liv – Skandia Life. That is what we call a hybrid company. We own 100% of the shares. We distribute the products. We also do a lot of the administration for that company, but we do not gain any profit from that business. It is, in effect, run as a mutual.

There was talk a couple of years ago of that status being abolished and therefore one would have to go two routes – effectively, go down a demutualization route or go into run-off. We've got a new Government in and at the moment, they haven't given clarity to us over whether they are going to insist on a change in the status or forcing us to go a demutualizational run-off or whether we can keep the status quo. But the very important thing I want so say about Skandia Liv – and it particularly applies to Sweden and Denmark – is this is the major traditional life insurance company. So, for many people in Sweden particularly, the Skandia brand is underpinned by the size of that business. Yes, it causes an issue for everybody that we can't share the profit on it, but there are a couple of things that are very important. The strategy for the Nordic area is the Skandia strategy and Skandia Liv is part of the Nordic strategy process and, in fact, they can only issue business and new products without the agreement of the Skandia management team and therefore we go through a process with the board of getting sign off. We are updating the scheme of delegated authority there so that in the same way that the Nedbank board twice a year sign off that they've abided by the schedule of delegated authorities (SODA) and got proper sign off, that's what will happen with Skandia Liv as well.

So, everything is now moving in a joined-up manner, so that we get our strategy right and we maximise that brand value. But it's still a case for the moment – and for the foreseeable future – that we don't gain any profitability from it. So, I wanted to mention that, so you won't see any profitability numbers coming through this presentation.

Unit Linked in Sweden drives Nordic profitability

What I thought to do on this slide is to give you just a feel for where we make money in the scheme of things and you can see that the main bulk of the money that we make on IFRS profit is in Sweden. What you'll also see in Norway, as I've said, the bank –well, in both areas – the bank as an Internet bank makes money, where as you know in the UK, the Internet banks have struggled. We have two very good banks in Sweden and Norway that at the moment are going through – like the rest of the business – a bit of a regeneration. But we'll come to that later.

So, when we go through this presentation, you can see quite clearly that the unit-linked business is a key business and is the main producer of profits, and that's why we'll spend a bit of time, moving on. But you also see from this point that the money, really apart from banking, is made in Sweden and that is why I'm going to home in on Sweden moving forward.

Largest share of the insurance savings market in Sweden

Now, what I thought it was useful just showing is again the demographics, looking at the market and you see that the largest share of the insurance market savings – that's Skandia Liv and Link – is Skandia. The traditional life has around 25% market share; the unit link business 16%; and, combined, that is the number one insurance player in Sweden. Not only that, you can see that if you look at the share of Swedish households' financial assets, that the insurance sector accounts for some 23% of the whole savings market. So it is still a very dominant market and you see that our main competitors generally are the banks and bank deposits are still quite a high proportion.

The Swedes like savings, as we saw before and the proportion of savings in the country of Sweden is a higher proportion than we have in the rest of Europe and so therefore this business – this pot of money – is really quite significant. Now, I think the Swedish savings market is evolving. It is going through quite a bit of change and that's what we'll go through. Savings as a proportion of gross domestic product (GDP) is the highest. The savings market is growing very, very strongly, but there is increasing competition coming through, particularly in the unit-linked area, and that's where we and SEB are just beginning to struggle a little bit because SEB and Skandia Link are the dominant unit link players. There are number of other companies that are coming to the market that have not got the same bulk of assets under management and also have got a grow at all costs and are not running to the same profitability stakes. So, we have got companies who are paying brokers significantly more commission than we believe it is right to pay, at a time when the European market – it's not just the UK market – the European market is moving from upfront to trail and the regulators are changing the rules – and have changed the rules – in countries like Denmark to legislate for the way the commission should be paid.

So, that is one of our challenges that we're going through. Also you see that because the Swedes are very Internet savvy, that is why the Internet banks are doing particularly well and there are more and more Internet players coming to the market.

The Swedish savings market is evolving…

There is a growing need for knowledge and advice but, again, the Swedish market is primarily a corporate market. The savings in the past have been through the employer and, as you know, in Europe, the Swedish market for pensions has been held up as a market that could be replicated in the rest of Europe. We actually believe, moving forward, that as the Swedish market has gone more and more to, I would say, a sort of a stakeholder market, where people are getting vanilla systems coming through, that our belief is the advisory market therefore is going to grow and grow and grow. So, we are looking very much as part of our strategic planning process is have we got the right proposition for the individual – for private business – as we believe that's going to grow quite significantly as the corporate market goes for low margin, low profitability, vanilla products?

You know there's quite a bit of change that's gone through the market that Per will pick up later. The Kapitalpension product has stopped. That was around 10% of sales for us and quite a bit more for the competition and there have been changes, as I say, in the pension arrangements and the ITP.

… and is showing substantial growth

The Swedish market is therefore evolving quite a lot, but it is also showing some very significant savings growth and as well as that – as well as savings coming up – the sophistications that people want are also becoming clear. I would highlight the first line there – the structured products. Swedes like structured products; they like offshore assets as well. That's why as we've been going through – I said in my introductory talk – that's why we've been looking very much at what our skill sets and what our specialisms should be in trying to make sure that we have the right expertise to guide people into the right structured products, to guide people into the right choice of funds. That's backed out by this demand that we're getting very much moving forward. As well, insurance products are still very significant and a very significant proportion, and we believe that will continue as well.

Skandia has a product mix that can adapt to market changes…

The other point with Skandia is if you look at our product range, that's why we're relatively relaxed if the market moves from a corporate to a retail – a private market - because we actually cover all of this realm. Also, we don't mind particularly if the independent financial adviser (IFA) market doesn't particularly grow because we also have got that direct link through the Internet bank.

… and has broad based distribution

In addition to that, we also have a very significant own sales force and therefore that is a sales force that we can channel into different products as we see the market moving. To highlight that moving forward, you see of our distribution, 55% comes from brokers, 32% from our own sales. If you want to break that down a bit more, 70% of broker business comes from just four firms and those we have an extremely good relationship with and we are still growing the amount of business that's coming from those top four firms. You've heard me say before, the market that we're struggling a bit with at the moment is the smaller brokers and that is our anticipation a year or so ago that the regulator, if we don't move more from upfront to trail, will start following the other Nordic states and therefore put in a degree of compulsion.

We'll talk a little bit later about that commission arrangement. We know that the regulator is about to make some statements and has also turned round and is very supportive of the move to trail. They believe that's the right thing to do, and we're also aware that they are some companies in the sector who are going to follow us.

Corporate business drives Sweden's profitability

Just again as a bit of background, before we go into detail, I thought it might be helpful to show where we're really getting our IFRS and where we're really making our profitability from. You can see the space is the corporates but, interestingly, a significant proportion from the small to medium-sized corporates and the small to medium-sized is distributed not by the big brokers, but more by or own sales force. The big brokers as well are also wondering whether they now need to go into the more personal area and we've had lots of discussions with them about whether we should support them in a joint effort to move more into the private market.

So, really just a general overview of the market, but I think let's be specific about what we found and what we're doing. As I said to you at the beginning, you're not just going to get good news. I mean, there are challenges in this business that we are facing head on and that we are grappling with and I am quite confident that with the team that we've got that it's going to take us another 12 months or so to work through these issues and at that stage we'll really get back on the front foot. But, let's see what we've found.

Nordic Division – what we have found

It has an excellent brand. One would've thought with all the problems going on over the last five years in Sweden that this would be a damaged brand. Far from it. It is still a very strong brand and that's what underpins my optimism for this market. We do have extremely good support from the large brokers and the corporates. I've spent quite a lot of time going round the large brokers and the large corporates to make sure that they are behind us, to get feedback from them of what they're pleased about and what we're poor about and we've taken action. The return on equity (ROE) in 2006 was 23%, so again a very significant ROE business this is. So, even if to a degree, the sales aren't quite as high, this is well in excess of our cost of capital moving forward.

What were the other problems? Well, there's been a lack of development in products. Our product range is narrow and needs to be widened and there's a significant lack of investment in information technology (IT). One of our problems we've got at the moment is we can develop new product, but actually this is holding us back on rolling out some of the new product that we want. So, we know what product the market wants; we know the product we can get, also from part of our sister companies around the Skandia group; but there's some more that we need to do, that we highlighted a year ago that we needed to do on IT to move the solutions forward.

I would also say – I won't pull any punches – there was a large unfocused senior management team. That is quite understandable. Five years of being beaten up. Five years of scandals. What happened in the paper yesterday – once again an executive – a previous executive – sent to prison for 18 months for remuneration scandals. You know, this is what the Swedish management team have been living in and that has subdued them. Now, I would turn round and say – you can come to the judgment for yourself for those that are here – that is past. We've made some changes in the management team and we've got a capable management team that one by one is dealing with the issues of moving forward and when Bertil joins in August, I believe the things that we are doing can accelerate forward because there'll be somebody who can spend 100% of his time.

There's been an unclear strategy on the direct banking. Three years ago, SkandiaBanken was far and away the best bank in Sweden. Now, interestingly, the Nordic bank that's been shielded from some of the problems is still far and away the best Internet bank in Norway. What we've done – brought in a new Head of Banking, Frederik Sauter, having come from Den norske Bank, who is absolutely revitalising the bank and moving it back to the heyday of what needs to be done.

Some decisions were wrong – acknowledge those decisions. We've put the website together for both unit-linked business and the direct bank. Well, you know if you're in a direct bank, you've got to have a glitzy, a fully functional, a great Internet website and we hurt ourselves by dampening that down and damaging it. Simple things that we've been able to put right.

We had 30 issues with Skandia Liv, which I said, which was causing a problem in that business, which was causing some in-fighting that was going on. So, we had to deal with that. So, we've dealt with that, and the relationship is now a relationship where we're moving the same way and I have to say we've given the clarity here. But, again, let's come back to things. The investment return in the unit-linked business is the best return in anybody in the Swedish market.

So, you can see the elements. Good brand, good support, good return. And we've got the underpinning of other business that we can take forward.

Nordic Division – what we are doing

Now, what have we done? Well, I've revised the organisation structure to make sure that we've got more focus on the issues. We've resolved the legacy issues. We've now got a cohesive strategy for the Nordic division. We are implementing - or have implemented – a far more efficient operating model. When I took over as acting head, there were 19 direct reports. You can't function with that sort of structure. We've cleared that up and streamlined it and given people authority and empowered them. We're increasing the product offering. I said to you earlier the best ideas were going to roll out in Sweden and there are some other products that we've got that will come through. We are revitalising the relationships with the IFAs and brokers and we are refreshing the direct offer.

So, I don't pull punches. There's been a lot to do and we've been doing it. You've seen that the margins have come down as a result of some of the things that we've done – of sorting out the Liv arrangement. But sometimes you have to do that to get onto solid ground so you can move forward, and that's what we've done.

So, we've got a period of time to go. There's another, I would say, at least 12 months to go of hard work before we see this business moving forward. But I hope at the end of the presentation today, you will be as positive about the business that I am, that once we have now highlighted what we need to do and we're doing it, we can build it back.

Revised organisational structure

So, the operating structure that I've changed so much – a clearer operating structure. You see some people repeated, as I said. Per here with healthcare and Denmark. SkandiaBanken, a new person in here. Marek's been promoted to run the unit-linked business and we've brought in a new Chief Operating Officer (COO) to make sure all the infrastructure is working properly and we're getting those expenses out.

Simple things – you know, we're in two buildings. Both of them are half empty. So, we're emptying one of the buildings and moving everybody together and we'll save something like SEK25 million a year. So, there are some low-hanging fruits on the expenses that we are taking out to drive forward with operating efficiency.

So, that really is the past. What I want to move on to now is looking in more detail at what our vision is and our strategy, moving forward, and again coming back and looking at each of the businesses and the strengths and opportunities for these businesses.

Assessment of the Nordic Business

Per Wahlström, Head of Denmark

Marita Odelius Engström, Chief Financial Officer, Nordic

Per Wahlström

A new compelling strategy for the Nordic division

Thank you Julian. Good morning, everybody. Before I go into the different business units, I just want to highlight the two strategic areas we are focusing on right now, aiming to be the industry leader going forward in the insurance market in Nordics. It's both the customer proposition, starting with the product offering. As Julian mentioned, we have broadened the investment possibilities for the customers and that with focus on long-term savings. That will be both to the private markets as well as to the corporate market. But beyond that, we will also improve our value proposition to the brokers and our distribution partners, and all aiming to continue to provide top investment returns to our clients and customers out in the market.

The other area is our operation model and that is all about efficiency. We have to address some of our costs and we are looking in a way to avoid duplication, leverage on the skills and knowledge we have, and I actually have a great example in Denmark right now, where we more or less have copied the IT structure in Sweden and putting it in place in Denmark – both the structures, as such, as well as applications and websites. In terms of cost and in terms of time to market, it would never have been achievable doing that ourselves, being a small market now, I would add, with our own resources in Denmark. So, it is great having a Swedish team working together with the local staff down in Denmark and we don't have to invent the wheel ourselves.

As Julian mentioned, the Swedish unit-linked business is by far the most important, both in terms of size and, of course, in terms of profit. You also heard that there have been some quite significant changes going on in the market, and some issues, and we are addressing them right now. The ITP scheme, which was just confirmed, and it covered most of the white collar employees in Sweden. We have a big business there. One-third of the unit-linked business is the tio taggar business in the ITP agreement and that market will, over time, turn into a tick-the-box market. But it is a profitable business, so we have decided that we will defend it. We will address a couple of different activities, among them, probably, we will also have to face a new pricing model and that will, of course, affect the embedded value (EV) on that business.

Lower sales – yes, we have seen lower sales over the last year. There are several reasons for that. The verdict towards the Danish state from the European Union reflected into Sweden, so both the transfer rights were stopped and the Kapitalpension was abolished. That, of course, does impact all our competitors in the market.

The new commission model was implemented in October last year and we really had a go for it from the big brokers, as Julian mentioned, which stand for 70% of all the business sold from the broker channel, and also the Swedish Financial Services Authority (FSA) supported the model as such. Basically what we did was reduce the upfront commission by half and supporting a better trail commission instead. But at the same time, some new, aggressive competitors entered the market and, of course, at the same time, raised their upfront commission – more or less doubled it. So, when we look and analyse were sales went down, it is basically with the small brokers, and I would say that it will by this year have been reduced by half. And, of course, limited product range and that we are focusing on to address.

Skandia Link

So, what are we doing, though? Well, we will start from the strengths and, essentially, the Skandia Link brand in Sweden stands for high return and a fantastic track record, ever since we entered the market, actually, at the beginning of the 1990s, built upon good fund selection – we have a proper processing order – and of course being part of a global organisation, we can leverage from that.

So, using those strengths, we will invest in a couple of areas. First of all, we will invest in a two-process launch of an investment portfolio product/platform. On a short-term basis, we will use a system that we have, we will restructure some products. On the longer term, we will have a full-range investment portfolio platform, which allows the customers to invest in single shares, equity-linked bonds and so on. The good thing is that that platform will be built in a way so that it will be scalable to other markets and, for sure, I want to have it in Denmark as well, but it is more important to have it in the Swedish market right now.

As of yesterday, we have launched some 20 new funds, booming our fund range within the Link offer and later this year, after the summer, our colleagues from the UK will help us to import the Best Ideas fund into the market and that will get us much better in terms of competing and delivering a good investment offer to the market.

So, all in all, and maybe together with evaluating whether we should open up for an additional commission model to address the smaller brokers in the short term, even if we do know that on a long-term basis, the more trail-based commission model will be that one that will be the model in the market. So, we will look into that.

I feel very confident, together with Marek and the other people on the management team that these actions, well communicated together with the big brokers, receiving good feedback, will help us to get into the game again and gain some new sales and increase the numbers.

SkandiaBanken

SkandiaBanken – as Julian mentioned, SkanidaBanken has a terrific brand. I mean, in Norway, it's actually the Internet bank – the e-bank in Norway. Of course, there are several reasons for that, but the bank has been very awarded. In Norway, it has been awarded as the best Internet bank for the last five years. Just recently in Sweden, we received the prize for having the best websites, best web service of all banks in the market. The platform, as such, is very good and it attracts an interesting customer base of high net-worth individuals. Those are partly or totally self-directed, so what we are doing now, as Julian mentioned, together with Frederik, is launching after the summer, beginning in Sweden and then afterwards in Norway, a supermarket of funds, which will take the bank to a top position, actually.

But more than that, we will more aggressively than we used to, market and sell our insurance products – the Link products - as well, through the bank, as being a direct channel, and the platform – we are looking into whether we should leverage the platform as a part of the strategy review we are doing now, if we should leverage that platform into the big brokers, as well as our own sales force, to improve their value proposition in terms of providing advice.

Healthcare

A couple of words about one of the businesses I'm heading. It's the healthcare business and it's a very important part of the value proposition to the corporate market, both in Sweden and especially in Denmark. I must say, we are the true market leader and we are providing some good value to our customers out there and one proof of that is that we just recently have been provided as the single provider to Scandinavian Airlines in all three Scandinavian countries. And much more interesting than that is that in a quite competitive selection process, we were chosen as the single provider to two new Internet channels -in Sweden, a very famous and successful Internet broker, called Insplanet, where we put our healthcare products in their offering and, in Denmark, in the Co-op which is a purchase organisation with more than 1 million members, and we are looking forward to building new volumes from that. I mean, coming into a business like that, we certainly do need to explore that and put our pension solutions and savings products into that business as soon as it is established.

Skandia Denmark

Then, last but not least, the Danish Link business, has a strong growth and a good track record over the last two years and we are in a position where we are being acknowledged as being the provider of good investment return to the customers in the market. The proof of that is Morningstar, who each quarter provide a benchmark to the market, and in six out of the last eight quarters we have been rated as number one in terms of best returns to the customers over one, three and five years.

Our latest product, Skandia Match, that we launched last year, has been very well received in the market and in comparison with similar products from our competitors' lifecycle products, we have been highlighted in the media and have more or less outperformed the other products in terms of investment returns. So, that is really great.

So, what are we doing now to leverage an increase in and to support further growth? One thing is in our investment fair in September, we will launch an application lifecycle management (ALM) tool towards the brokers. That is great because it's built on components that have been developed in the Europe and Latin America (ELAM) region, which we have captured and built from. So, we have a market which is very good.

The other thing is we will add some new funds – some more exotic funds – that we have been asked to put into the fund range and, additionally, in Sweden, we are leaning towards our colleagues in the UK to import the Best Idea concept and we think that these actions will take us even more in advance of many of the competitors in Denmark. It's a really good business there.

Marita Odelius Engström

What drives the Nordic financials?

Hello, everyone. Before I start to go through with the performance for 2006 and also the first quarter and maybe comment a bit on the Liv-Link agreement, I would like to just show you what drives the earnings really in the Nordics. By far, the unit-linked business is the biggest contributor to earnings - mainly 70% comes from the unit-linked business. The bank contributes with 20% and the rest is less than 10%.

This slide shows the Skandia Swedish unit-linked business and the revenues, expenses and commission costs for the last seven years. That shows that the revenues are of great importance for our business and, as you can see, you have a very high increase here in late 2003, and that is mainly linked to the equity market growth because most of the fees we have are fund based. We used to have a lot of premium-based fees in the past – which is very common in other countries – but in Sweden, we have more or less 90% fund-based fees.

Looking at the expenses over the years and also the distribution costs, you can see there is a quite flat and stable growth, and we are very proud of that as we move forward. As the new sales have not been as good as we hoped over a couple of years, that is of course flat, but the expenses we have managed to leverage on the economy of scale, so what we see here is a great number. Moving into 2007, we will increase the expenses, mainly because of the Link agreement – and I will come back to that later.

There is a number of initiatives running now in the Nordics in the expenses area, that are not only looking at the operations we are running, which are mainly based on a self-services concept. We also have a lot of synergies projects, which came in when Old Mutual arrived - and I will also comment on that later on as well. This is the most important thing for us, to just make sure that we are more cost efficient in the future because it's a very competitive market now in the life insurance market. I think for 2006, new sales went down with 12% because the Swedes are looking more into structured projects and other kinds of offerings, so it's really, really important that we have a cost efficiency running.

What is also interesting in the Swedish marketplace is that most of the customers in the unit-linked business are looking for equity funds or mixed funds. So, if you compare it with other countries, we have less than 10% in liquidity funds or interest funds. That means that the linkage to the equity market as such is also important.

2005-2006 Performance

Moving on then to some numbers for the last two years. We have a very, very strong underlying business in the unit linked, providing good, strong and solid IFRS numbers. We are trying now to find some economy of scale and I have seen that in Denmark, which is really, really good. But what has happened in the last couple of years is that we have seen a slight decrease in the new sales numbers. As you can see here, we are going down between the years, with some 200 in new sales numbers and also the contribution for value new business is going down, and that was also mainly explained here because of the Kapital platform. The EVA numbers are strong. We have really good in-force business, so the reason, I would say, why we are going down in the EV numbers is mainly linked to the fact that the new sales numbers are going down. This is something that is really important for us moving forward and the new products coming in will also have an impact on these numbers as well.

The net client cash flow is also a very positive key performance indicator (KPI) for us, with this saying 3.5 for the full year, and I would say that the unit-linked business is even better than that – it is 4.5 - almost 5 billion a year. The reason why we are the net is 3.5 is mainly also the usual fund business, which is a very small business in Sweden and mainly takes care of one of the inflows from the Premium Pension System (PPM), which is the state-owned pension system and that comes in in the first quarter, and the quarter after that is more than negative cash flow. These are some of the issues and some of the most important challenges we have to improve that one in the Swedish marketplace and we have a lot of actions coming up just to make sure that that will increase in the future, now with Frederik coming into the bank. The asset fund management, as I said, improved.

Performance Q1

Moving on to the first quarter, I would say that the same trend goes for the first quarter. We had a very strong IFRS profit, but the changes in the law in the Kapitalpension made the new sales go down because it was an overnight decision. That impacted both the new sales numbers as well as the value new business numbers. As you can see, there was a huge drop in the business margin, from 29 to 18, mainly caused by a cut in the new sales and the Liv-Link agreement because that has a substantial impact on the profit margin – and I will come back to that later.

Here you have a negative trend in terms of net client cash flow and one of the reasons for that is that the PPM changed the way they paid out the pension money from Quarter 1 (Q1) to Q4, so the money was paid out in Q4 2006. So, when you do the comparison between the two quarters, that doesn't make sense. But the underlying net cash flow from the unit-linked business is almost the same in the two quarters – 1.5 billion, actually. We reached an all-time high in funds under management – 111 billion and it's increasing over the years and over the next month as well.

The Liv-Link Agreement was renegotiated in Q1'07

The IFRS was hit, as I said, by the Liv-Link agreement. I do not know how familiar you are with that, but it is an old agreement going back to when the unit-linked business was quite new in Sweden – I think it was from 1995, actually, and is a kind of outsourcing agreement for the joint occupational pension scheme between Skandia Link and Skandia Liv, the mutual company. Most of the processes in the system are built in the Skandia Liv company and it was questioned during the legacy review, so we decided that this must be solved, and that has been done. From 1 January 2007, we have a new agreement with Skandia Liv, because there is still a joint offer, but we have changed more or less some of the pricing models and we are also transferring processes to the parent. The impact of that is in the first quarter IFRS numbers - SEK62 million - mainly linked to higher expenses, but also higher cost for commissions and part of that is also caused by the changes in the commission model.

The full-year estimated forecast is roughly 300 and that will, of course, impact the EVA numbers, so the net impact on the EV, which was one of adjustment of some 1 billion, was made in our new first quarter and was included in the fair value balance sheet adjustment that was made. The impact of having larger expenses impacts the profit margin by 4% this quarter, so it is quite a big impact. What we are doing now is to really make a more cost efficient acquisition process so we will come back so that could be managed.

New commission model introduced 2006

The new commission model, I don't want to spend so much time on, just to say what Per has already said. What we did was that we wanted a more trail commission-based model, so for the existing business we moved from the old model of 2% paid on premiums to a 0.3% trade commission base and for the new businesses, we wanted to reduce the upfront commission, which was quite high to something lower and instead making the brokers work more with customer care and make sure that we have a long duration still in the portfolio.

Integration Update

The integration, then. As I said, a lot projects are running for the integration with Old Mutual. It has been very successful and we have a more efficient operating model now, I would say, than we had before. What we committed to was to deliver £7 million in synergy targets and we are on track, I must say. It is mainly in the IT area, and I think we have mentioned before the information technology transformation (ITT) programmes, so this is our part of that. We are trying to coordinate all the IT departments within the Nordics to make sure that we have an efficient IT infrastructure for the future.

Margins have been impacted by lower business volumes

Finally, a comment on the profit margin, which could be of interest, I guess. As I said, we have decreased the profit margin from 2005, being at an extremely high level, compared with other countries and other competitors, of 32. We showed now the 18% number in the first quarter and what we said and committed to last June…

[Tape turn]

…something in between the 22 and 25. We are still there and we still believe in that target. You may ask, how is that? The reason for that is that we don't believe that the 18%, which was a real hard hit in the first quarter by Kapitalfund, is the underlying profitability in our product. It's higher than that. We also know that the new sales will be recovered during the year because we have seasonal effects, so the first quarter is always not as bad as the later months in the year. We have also heard about a number of new launches and new products and we will offer more interesting products in the future and that's why we also believe that new sales will recover.

The positive trend is in Denmark, where they increased new sales last year by 101% and they are continuing with that new sales development growth this year, so we believe that the profit margin will really now improve, so now they will reach the economy of scale that we have seen in the Swedish market place. We also now that the cost efficiency programme that we are running will also improve those numbers, so we still think that the 22 to 25 for 2008 is valid and realistic.

With those words, I would like to hand over to Julian to sum up.

In Summary

Julian Roberts

Thank you very much. So, to give a bit of a flavour and, again, a quick update on where the business is. Fundamentally, it's a strong business. The brand is strong. I believe and my colleagues believe the solution is relatively straightforward. It just needs quite a bit of work that we're doing at the moment to get it right. The Nordic division still gives us good returns, but they are lower returns, and we predicted they would be lower returns than when we bought the company. But, the margins have gone down because of what has been outlined – slightly lower than we had hoped – and now we're taking the action to move them back onto the right track.

So, we've already made a good start. The momentum is building. We will transform and get this business back on track, but it's going to take us a bit of time.

Questions and Answers

Julian Roberts

Marita and Per, do you want to come and join me, and Marek, as well. I know we're running pretty late at the moment, but if there are any questions, before we move on to ELAM.

Blair Stewart, Merrill Lynch

Thanks very much. Two questions. You mentioned right at the beginning, Julian, about the possibility of a Liv demutualization etc. Could you quantify in very general terms what that would mean for you as a business?

Julian Roberts

No, Blair, I just don't want to focus on that at the moment because we don't have to deal with that issue at the moment. The demutualization – we thought we were going to be forced down either a demutualization or a run-off, and we don't have to do that at the moment. So, yes, it is something that we know that we will have to come back and look at. It is something that is on our minds – we've got various options – but at the moment it's not something that right now is relevant to the business.

Blair Stewart

What's the timing on that, then, do you think?

Julian Roberts

There really is no timetable for it because there is no urgency. We're not being forced to do it. So, it's something we'll look at, but I want to focus at the moment right on the work that we're doing. So, we'll come back and look at it at a later date.

Blair Stewart

Okay. The second question then is on the ITP arrangement in Sweden. Could you comment on the impact that that's having on margins? Is there any contagion effect or contagion risk of the lower charges on that product moving into other parts of the market?

Julian Roberts

Well, I think the big thing – and I'll ask Marek to make a comment – what Per said was the ITP arrangement, and in that sort of tick-the-box market, we weren't a particular player. The element is the next tranche above the tio taggar business - which is significant for us - and the issue for us is whether more of that business will follow down the ITP route and whether that will happen in what length of time. So, what Per outlined – and I'll ask Marek to make a comment– was we naturally will fight to retain that business and therefore the question is what will we need to do in order to retain the business? We just have a flag in there that if the pricing becomes a little bit more competitive, that could have an impact on our EV. But, Marek, any comment?

Marek Rydén, Head of Unit-Linked Business

Like you say, the new ITP agreement, there is a tick-the-box market. It's still very low in size. It's going to grow over the years and we're not part of that. But, there is still a very considerable amount of business going into the old type of ITP business and that's what we're trying to improve by making the existing products more interesting and more competitive. We're looking at price changes, loyalty programmes – stuff like that. There might be some effect on profit margin, but I do not think it's going to be substantial this year or next year. In the very, very long term, of course, we need to deal with the fact that the whole business is transformed to ITP, but that is a time period of 10 or 15 years.

James Pearce – Cazenove

I'm going to betray my ignorance of Skandia, but could you explain a bit more what the benefits are to Old Mutual of this scheme with Liv? They seem to have done pretty well out of it, but I can't see what the benefits to Old Mutual are.

Julian Roberts

There are two issues and two things that we just need to focus on. The first element is the element of the old arrangement, and the old arrangement was where, effectively, Liv paid upfront commissions on behalf of Skandia Link and got a trail fee. Therefore, there was a liability that had built up in the embedded value calculations for the group and what we did is - effectively to get rid of that agreement - is we had to settle upfront the amount that was due. Now, one of the reasons on that slide that you see a difference from – I think it was 62 million for the first quarter and 325 million for the full year – is that we've got to pay the funding costs of paying that upfront and therefore interest begins to accrue. So, the true ongoing cost is 325 million. That got rid of something that we just felt was actually wrong. One thought it was wrong to have Skandia Liv basically funding the new business strain of the Link business, and therefore we should unravel it. That's the first point.

The second point – and is where the EV actually changed – is because we have looked at and renegotiated a new agreement and the amount of work that had been done by both companies – by both firms – had changed. If you remember back at the end of last year, we said those additional administrative costs were going to put up the expenses of Skandia by around 100 million. That isn't a choice. That was the cost of – the true cost for ongoing business of the Link business and therefore that naturally – the capitalised valued – has an impact on the business moving forward.

So, now, what we have done is we've got everything on an ongoing basis on the right footing and there has been a cost, and we have to reflect that cost. Now, what the impact is for us is we've got to recover that by being more efficient and getting our expenditures down and that's part of the challenges that we've had.

So, in many respects, James, there hasn't been a choice. You know, we had to enter into a new agreement and we've negotiated entry into the right agreement. But, I think from a values point of view – from an integrity point of view – it's important that we pay the costs that are right for our business and fund the new business strain and Liv pays the fund for their business, so, therefore, that's why we clarified that.

James Pearce

If I could just have a follow up on another issue, the commission policy, it looks as though you've cut commission for unit costs because of the lower volumes to actually go up. Shouldn't you just raise commission again to get the critical mass back and unit costs back down?

Julian Roberts

The challenge when we entered into the new commission arrangement - the research had been done a year ago - was that the market in general was going to move that way and was going to move fast. The decision was made then from the research from the competitors, because of the Danish legislation, that everybody was going to move. We know that they will and we know that the regulator is either going to persuade people to move or is going to make people move. But, they haven't. So, therefore, the question that we've got and we still debate on a regular basis is, should we just go back and then knowing that we have to wait for regulation to come in which could be more onerous, or do we persuade the market as a whole to move with us? That has been the judgement call that we're going through. We do know that more companies are going to move this year. We do know that the FSA in Sweden are going to make some statement, but you have to come back to the commercial reality and we look at that on a monthly basis. At the moment, there is no plan to change, but I don't rule that out.

Michael Christelis, UBS

Could you perhaps just give me an indication, in terms of the de-listing in Sweden, what sort of cost savings can be expected there to the group and whether those were included in the synergy estimates? Then, just what effect do you think it might have on the brand in Sweden?

Julian Roberts

The first thing, it certainly wasn't, particularly, in the synergy estimates, although this has put a huge strain on actually the whole Old Mutual group – and Jonathan may comment – because, of course, it has impacted the whole Old Mutual group that we've had to go into quarterly accounting and all of our people have had to work extremely hard in order to move those processes through.

Is there going to be an impact on the brand in Sweden? No, we don't think so. I mean, we committed to make the listing when we thought Skandia would still have a quote and therefore we'd have a significant number of following of the local business listed in Sweden. Therefore, we thought it was natural that we should have an Old Mutual. The number of shareholders in Old Mutual in Sweden has been small and therefore it did seem inefficient. Is there any cost saving you'd like to highlight, Jonathan?

Jonathan Nicholls, Finance Director

Nothing that we have strictly identified other than [inaudible][19:54] internal costs. The other point I would make [inaudible][19:58] the local population will still be able to trade the stock through a trading facility that we have set up, so I don't actually think it will make any difference ultimately to the stock itself.

Julian Roberts

The first part of the answer was you didn't think it would be a significant saving in money.

Michael Christelis, UBS

What sort of quarterly reporting will you still be doing? Will we get trading updates in terms of sales, or any idea yet?

Jonathan Nicholls

As I said when I introduced it, we'll benchmark ourselves against our peers, but clearly it won't be the full disclosure that we've been disclosing for the last two quarters. But, we're still working that through and obviously we've got the development of the disclosures, anyway, going forward. So, it will be consistent with that.

Julian Roberts

If you recall, at least as a minimum before we had to go to quarterly accounting, we did do a trading update, so it, I am sure, will be the base minimum of what we've done in the past. But, as Jonathan said, we need to work out what we're going to do more.

I am conscious of time moving on, so Johnny, you haven't asked a question yet, so you win.

Johny Lambridis, Citigroup

Just on SkandiaBanken – and I see you are looking at moving out of Denmark and therefore saving some costs or making some profits, because you are losing money there – but what else can be done to actually drive profitability up for SkandiaBanken? It looks like a strong Internet bank, but the profits don't seem to come through, particularly relative to the goodwill that is still being carried on the balance sheet for that business.

Julian Roberts

Yes, there is a significant amount and there is a separate review being done by Frederik in Sweden. I turn round quite clearly to him and he knows – that bank has got to make a 12% return on capital, and that's the target. But, we believe very strongly that the bank needs to go back to what it was known for in the early years and, at the moment, things like the mutual fund range that goes through the bank is far too narrow. As Per said, we have broadened that out. We also believe that the banking platform can offer a very significant amount of other products that can be shoved through it. So, we're working through exactly what, but I know Frederik is telling me he's very confident that the returns will get back up to the 12%. It's got a great brand. There's more that we can just shove through it.

Now, in addition to that – because there always has to be Jim's rule that each business has to have at least some benefit on another business – we also believe that there is a cross-sell that we can get through that huge base of the Skandia Liv and Skandia Link customers, and therefore we're looking at some propositions down that route as well.

Johny Lambridis, Citigroup

Just the size of the Basel II costs this year, and relative to what you incurred already in the first half?

Marita Odelius Engström

Yes, the first quarter was hit by the Basel II costs. It was some 20 million or so.

Johny Lambridis, Citigroup

Will you see more coming through for the full year, or not?

Marita Odelius Engström

I have reviewed the Basel project. [Inaudible][23:22].

Julian Roberts

We've reviewed the Basel project. In the first quarter, you'd have seen the amount higher because we had to write off some investment. We are no longer going with the advanced route on Basel II, so therefore there is ongoing cost. But, we have scaled that back because we want to invest more in the core business rather than on that lending side of the bank's portfolio.

I am conscious we won't have time for ELAM or questions at the end, so if we can move swiftly on – thank you very much, guys – to our latest British resident.

Preamble

Hello everyone. I am really proud of representing the hidden jewel of the Group, the Europe and Latin America Division, or ELAM, as we call it in Skandia. With me today, I have some of my ELAM colleagues though, unfortunately, I can't have all of the team. I will suggest in my presentation that our real strength is in the team, of which we have a small representation here. Let me start with David Buenfil, who is head of our Mexican business. In the last six months, he has successfully expanded our own sales force from 180 to 300 financial planners, while maintaining average sales per financial planner. Hein Donders is head of our French business and he started the French operation four years ago. At the beginning of this year, it reached EUR 1 billion in assets and became the fourth provider to the IFA market in the unit-linked business in France. At the same time, Hein is leading a project in the southern European region, with Spain, France and Portugal. From January of next year, it will start to work as a single business within the Group.

Alex Taylor is our Chief Operating Officer in the central European region and he is helping us extract part of our hidden value by improving our operational leverage. He is leading a project in the region where, we hope, from the middle of next year, we will start sharing customer service among all central European countries. Last but not least, we have Mark Satchel, who is the divisional Chief Financial Officer. He has been at Old Mutual for seven years, in different positions within the Finance area and he will lead us through the ELAM numbers today. For the next 30 minutes, we intend to provide you with our insight on our business and explain why we believe that this Division is facing excellent growth prospects in the years ahead.

ELAM is a strong growing division

What is ELAM? ELAM is a fast-growing division of Skandia, providing attractive products within the long-term savings market. All the countries in which we are located have strong economic fundamentals and local characteristics that fit well into our business model. With these strong fundamentals, we believe that we will be able to meet our earnings growth targets in the years ahead by increasing our financial management while maintaining high profit margins. Examples of how we can achieve such growth can be seen in our development in France and Poland, where we have more than doubled the assets annually over the past few years while maintaining high profit margins.

ELAM has a strong geographical presence

Where are we located? ELAM today has very wide geographic locations, covering 11 European and three Latin American countries. All of them have favourable demographics for our business model. The average life expectancy in the markets in which we operate has increased by over six years in the past two decades. This makes the role of the second and third pillars in the savings market increasingly important as the state pension system will not provide sufficient support to the aging population. The total size of the markets that we cover is very large. Combining the total life premiums in our markets would make it the world's second largest Life market, after the US. The mutual funds assets within these countries are also very significant, amounting to EUR 2.4 trillion in 2005. Besides the local operations, we also have a platform called Skandia Global Fund, providing local businesses with high-quality investment funds. Paladin, based out of the Netherlands, has transferred into the ELAM Division since the start of this year. As you will recall, Paladin was one of the affiliate businesses acquired by Old Mutual in 2000 as part of the UAM deal.

Market trends support our business model

Several macroeconomic factors favour our business. On an overall level, we have the support, demographic development and an insufficient state pension system driving product solutions. More specifically, there is a growing acceptance for open architecture and an increased need for advice, which fits well into our business model. Convergence of European regulations is also providing a more favourable operating environment for our business. In Latin America, the political risk is decreasing in the markets we are operating in and confidence in the financial system is increasing.

A clear focus in what we do

What type of business do we perform? We operate in the long-term savings market and have a strong focus on open architecture solutions, using slightly different vehicles depending on the local market. In Europe, and particularly in Germany, Austria, Switzerland and Poland, our business is nominated by Unilink Savings, provided through regular premiums. We do, however, also offer single premium solutions, particularly in France and Italy. In Latin America, our core offering is mainly pension savings. In Colombia, we cover both the complimentary and mandatory pension segments. You should note that Latin American regular pension business is reported by Old Mutual as non-core business, due to the lack of insurance brokers.

We are targeting the right segment

Who are we serving? Our clients are primarily to be found in the mass affluent segment but there is also a significant share of mid-income retail clients in some of our markets, like Germany. The predicted growth of the mass affluent segment in Europe and Latin America is significant and we are in a position to take advantage of this growth. Besides products offered to individuals, we have a growing corporate pensions business in Latin America. This corporate business is sometimes used, as in Mexico, as a way of tapping into a more profitable business.

High quality distribution

How are we distributing our business? We have adopted our chosen distribution channel depending on the local market practices and conditions. Primarily, we work within the dominant channels such as IFAs and multi-level sales organisations. We also have bank distribution in some of our markets, such as in Italy. In Latin America, we have built up our own sales force as the region lacks independent channels with sufficient quality. In Colombia, we have over

400 financial planners and in Mexico, as I told you, we have around 300, 320 to be precise. Innovative solutions and high service levels, both to distributors and end-clients, is core to our offering.

We have the right people in the right place

Our business, as you all know, is all about people. ELAM is a very entrepreneurial organisation and has a strong history of entrepreneurship. Customer focus is key in our employee profile. We prefer team players in our operations, with a balance between local expertise and international experience. We have a strong culture with the passion of a young and exciting company but also the benefits of a large international organisation.

A successful history

Looking at our history and previous growth, there are several elements of our strategy that have been key to our success in the past. First, ELAM has always been a customer-driven organisation. We have been close to people who trust us to manage their money. Second, we have been able to provide innovative products and services of high quality. Finally, the strong culture and local entrepreneurial skills have been the cornerstones in enabling the strong growth of our business from the start. The size of our business today is more than double compared to some three years ago. While we have been growing we have also undergone business diversification. However, there has been a lack of operational leverage and we have duplicated the same processes in each country. This provides an opportunity for the Division, as we will see later.

Our operations today are at different levels of local market penetration…

ELAM's operations are today at different levels of maturity, with a fair level of local market penetration. Operations with low market penetration are also in the start-up phase. We aim to increasingly grow these businesses in the local market but we recognise that it will be from low levels. You will be aware that we divested the Division of Life business in Spain earlier this year. We believe that there is a fantastic potential to grow the Unilink and mutual find business model in Spain in the future. This business is now a start-up again within the Division. I hope that it will grow very quickly.

France, Mexico and Poland are all in the process of moving out of start-up phase and significantly increasing their contribution to the Division's value creation. Poland was the largest contributor of new business in the past six months. Together with Germany and Switzerland, where we still feel that we have room for significant market penetration, these five countries should deliver a large share of the growth within the Division in the medium-term. In the countries of the last category, Austria, Holland and Italy, we always enjoy fairly high market share in the segment in which we operate. An important strategic move in these countries should be to use our current position to enter new segments. A good example of this is in Colombia, where we have 30% market share in the complimentary pensions savings market. Here, we recently entered into the mandatory pension segment, in the high end, where we are significantly growing our business.

We are targeting strong profitable growth

What is ELAM targeting? I have a short answer to that question: strong and profitable growth. ELAM's ambition is to become the customer's obvious choice for long-term savings. Stronger growth of new business and fund management is key for us in the Group. However, we will not allow growth at any cost. We need to have a sound balance between solid margins, continued growth in net client cash flows, greater earnings and cash generation in the medium-term. New business contribution is a key measure for us in the value that we are creating. There is still great growth potential within our present market that we have not yet captured. We plan to grow in both existing and new segments of those markets and the fundamentals are in our favour. We are currently working to expand offerings to our IFAs in France that we do not already have a strong relationship with.

We are implementing two initiatives to leverage our market potential and to deliver strong profitable growth

In Austria, we are looking at how we can penetrate new distribution channels. Combining our growth potential in new business with operational leverage, I am confident that we will be able to meet our targets.

Delivery of strong and profitable growth is about two key elements. First, growth of new business and financial management by investing in new distribution capabilities and innovative products and services to meet customer needs. Second, we need to operate at an improve scale so that we can add new business while keeping our expenses under control. Operational leverage is something that we have lacked in the past and we have good opportunities to improve our operational scale.

Growing new business and FUM

In ELAM, we are investing in our distribution capabilities. To grow our new business, we are increasing our distribution capacity. In Europe, this is about increasing the penetration among the IFA networks and multi-level organisations. We are doubling the number of in-house broker consultants in Germany and in Austria and are expanding our sales force in Latin America aggressively. We are also reducing key dependencies by supporting high-quality IFA firms and new sales organisations in order to grow theirs and our business. Last but not least, it is key that we continue to be at the forefront in the development of products and services to keep our high level of innovation.

Creating operational leverage

Besides the large growth potential in our markets, we are convinced that there is hidden value in ELAM that could be extracted through operational leverage. Looking back to the 1990s, when most of our operations were founded, we had a rather loose federal structure, which was beneficial for our businesses during the start-up phase. Today, we face improved opportunities to enhance operational leverage by working closer together. We are currently harmonising our processes in order to move towards a single business.

In southern Europe, we are integrating France, Portugal and Spain into a single business from January next year. The second phase of this initiative will also involve Italy so that we will ultimately have one business in multiple markets in southern Europe. In Central Europe, we are initially establishing a common customer support function and, in Latin America, we are combining the IT and Financial functions. The Division is also working closely with the rest of the Group on another initiative that will improve our operational efficiency. Programmes are under way relating to our investment management practices, and that has been mentioned today, will be of great benefit to our business. The offshore initiative, with our colleagues in the UK Division, also provides an excellent low-cost opportunity to grow our revenues.

I will now hand over to our CFO, Mark Satchel, who will take you through the financials of ELAM.

Steady growth in covered business APE

Good morning. The European and Latin American Division has experienced fantastic organic growth over the past few years. Much of this growth has been generated from the businesses that started from scratch in the mid 1990s. Many of these businesses are now benefiting from improved scale advantages and established distribution agreements. The growth in covered business AP of the Division, excluding the pension business in Latin America, has increased at a capitalised annual growth rate of 35% over the last two years. This growth has come from all of the markets in which ELAM businesses operate and reflects a combination of being in the right markets and offering the right products to the right market segments. It is worth commenting here in the decreased APE in Q3 of last year that arose after a very strong Q1 and Q2.

The decrease reflects two main impacts. Firstly, the single premium markets of Italy and France performed very well in the first half of the year. France, last year, had a change in local tax legislation that resulted in a very strong first half-year of sales and this has since, as we expected, tapered off to an extent. The Italian business, on the other hand, is almost volatile in terms of new business flows and the first half of last year was a strong period and one that the business has not been able to match since then. Second, we anticipate a more seasonal impact over the several months impacting new business when both end-clients and distributors tend to take vacation in Europe.

New business contribution (NBC)

The new business contribution follows a similar profile to that for the covered business APE, with Q4 generally tending to be the strongest quarter. This coincides with most European tax year-ends. New business contribution grew by 66% in the full year 2006 compared to 2005. As Rafael already mentioned, new business contribution is an important measure in ELAM. As a division that has a large component of young businesses, we aspire, in the medium-term, to more or less doubling the post-tax new business contribution every two to two-and-a-half years. We achieved this is Q1 of this year after stripping up the German fire sell overhang effect from the Q1 2005 results.

The post-tax profit in ELAM has remained relatively stable over the last year, at around 20%. This equates to a pre-tax profit margin of around 30%. The recurring premium-dominated businesses in the Central European countries attract a good margin, averaging in the high twenties, post-tax, for Germany, Austria and Switzerland, with Poland considerably higher at almost double. In the single-premium markets of southern Europe, the margins are under more competitive pressure and average around 10 to 15%, post-tax. The average pay back period, in cash flow terms, for most products is less than five years. In the future, we anticipate that the margin for the Division as a whole will decrease, caused by more competitive pricing as more players emulate the open architecture model.

We have taken proactive steps to reduce the margin where we believe the healthy margins currently earned are unsustainable in the medium-term. This is particularly evident in Poland and we have re-priced the products there to a level that remains very profitable but not to the same extent. We anticipate that the Division will maintain the post-tax margins in 2008, within the 16-18% range communicated last year.

In Latin America, the major part of the Division’s non-covered business is written as long-term recurring premium pension business that is classified as non-covered business in Old Mutual’s reporting accounts. Within this region, Colombia contributes positively to the non-covered IFRS results but both of the more recently established businesses of Mexico and Chile remain loss making under IFRS, given the long-term nature of their recurring premium business and the initial strain of the new business written. As a region, the businesses in Latin America are profitable and Mexico and Chile are anticipated to turn to profitability within the next two to three years. In Europe, the non-covered business is mainly comprised of medium- to long-term structured products that compliment our core unit-linked offerings.

I will take a brief moment to talk about the Spanish mutual fund business as it impacts some of the Division’s key metrics disproportionately. As you are aware, we disposed of the traditional Life business in Spain earlier this year. The business remaining in Spain is mainly comprised of extremely low-margin, non-covered business that is loss making. This business is provided by a few large institutions, most of whom have advised us that they will be withdrawing their funds under management during the course of the year. Of the EUR 500 million or so in funds under management in the retained portion of this business at the start of the year, about EUR 150 million has already flowed out and we anticipate that, by the end of the year, most of the remaining funds will also have left the business.

The impact on the bottom line from these withdrawals is not significant but it will mean that the Division’s net fund flow will be adversely distorted by these outflows. Both Skandia Global Funds and Paladin are also included within the mutual fund business of the Division and their improved scale and profitability have contributed well to the turnaround in the overall non-covered business profitability that you see.

ELAM has more than doubled FUM in 3 years

Funds managed by ELAM have grown impressively over the last few years, with funds almost tripling from the start of 2004 until the end of 2006. As a general target, we aim to double funds under management every three or so years. In order to achieve this, we are aiming for 20-25% net fund inflows per annum on opening funds under management and some assistance from positive market growth. As the book of business matures and increases in size, there will be a noticeable but anticipated increase in the quantum of surrenders and maturities. About half of the revenues generated by the Division stem directly from the level of the funds under management. The split between covered and non-covered funds under management follows about a two-to-one ratio. The average blended net basis points retained by Skandia on the combination of the total funds under management and the net premium income is about 40 basis points at present. We expect this to increase as the businesses scale and move towards improved profitability.

2005-06 Performance

2006 was an excellent year for the Division, in particular the first half of the year recorded extremely strong growth in new business levels. Q4 was the strongest quarter on record at the time for the Division in terms of new business contribution and covered business new sales on an APE basis. All of the metrics demonstrated good underlying growth in value creation. The Division's IFRS profitability improved considerably during 2006. In 2007 and 2008, the investment in synergy initiatives and increasing distribution capacity will both serve as constraining factors on immediate profitability. As the business develops, we anticipate an increase in expenses but the rate of increase is anticipated to be significantly less than the revenue growth. The operational leverage initiatives being undertaken will increase the expense base over the next few years but this will contain expense increases thereafter. Having said that, we plan to grow these businesses so that expense levels will rise modestly as a natural consequence.

The majority of businesses within ELAM are now profitable under IFRS. The exceptions to this are the more recent start-ups in France and Portugal, the businesses in Mexico and Chile that I have mentioned and the Spanish business that Rafael alluded to. Moving all of these businesses to profitability under IFRS is a priority of ours. While the embedded value (EV) results show a negative trend, this is caused by operating assumption changes. The underlying EV results, before operation assumption changes, increase by 69% from full year 2005 to 2006. The Division recorded an overall return on embedded value of 13% last year, well on their way to achieving the 2008 target of 15%.

Performance Q1

Q1 2007 was a good quarter for the Division. Particularly pleasing was the positive development in IFRS operating results. Covered business APE and VNB were marginally improved on 2006 but Q1 and Q2 of last year were particularly strong sales periods in France and Italy. The volatility of the Italian single premium market was exposed this year, with sales levels below those of the previous year.

Two countries are worth a special mention in Q1 2007. The first is Germany, which saw an increase in new business sales in excess of 40% compared to the equivalent period of the year before. The second is Poland, which had another fantastic quarter and, as Rafael mentioned, it was the largest new business contributor to the divisional new business results. Net client cash flow and Unitrust sales comparison in 2006 and 2007 is heavily influenced by the Spanish low-margin institutional assets that I mentioned. The 2006 net client cash flow contained EUR 223 million of Spanish net fund inflows while the 2007 net client cash flow includes

EUR 115 million of net fund outflows from Spain. The underlying trend is therefore quite marginal and it amounts to a decrease of EUR 24 million in net fund flows for the Division. Against this backdrop, Italy had EUR 105 million less fund inflows in Q1 2007, compared to the same period in 2006. The underlying trend within the majority of the businesses within the Division is indeed very positive.

Following the sale of the Spanish Life business earlier this year, the Division will be a net contributor of cash to the Skandia centre. As Julian mentioned earlier, the Division utilises the Skandia Group shared service cash and capital management treasury function to control and allocate cash. In the medium-term, we plan for the Division to be at least cash-neutral to the Group, funding capital requirements from capital surpluses in other businesses in the Division.

On track to achieve divisional targets

The Division is well set to achieve the Skandia Group and divisional financial targets that were communicated publicly by Old Mutual this time last year. The Division's current profit margin from covered business is tracking slightly ahead of the 16-18% target range at present. As already said, we anticipate that this will reduce over the course of this year and into next. We are growing all countries towards a positive IFRS result and the improvement in the IFRS result last year and this year to date is evident. We are on track to more than triple IFRS profits from 2005 levels for the Division and thereby contribute to the Skandia Group achieving its IFRS profit growth objectives. We will be cash generative with this portfolio of businesses in the medium-term. We intend to increase funds under management at a rate in excess of the overall Skandia Group targets. Our embedded value is growing at a healthy rate and we are on track to achieve a return on embedded value of 15% by 2008.

Thank you, Rafael will summarise ELAM's performance.

Rafael Galdon

In summary

I hope that you are now closer to discovering the hidden jewel of our Group. In summary, we are well positioned in our markets and are in the right markets. Margins are on track as are operational levels. The most important and most difficult to translate is that our power is in our people, their energy, spirit and commitment. In our type of business, in 14 countries, the only way to do it is with a really good team. With all of this, I am strongly convinced that we will become the Old Mutual strong growth engine. If we have time, we can have questions.

Questions and Answers Session

Matt Lilley, Lehman Brothers

If you look beyond the end of your graph to, say, 2012, which two countries will be the biggest contributors to sales or new business profits and how much lower will the margin have gone by then?

Rafael Galdon

If I look at 2012, I would start with Latin America where Mexico will be an important contributor. In Europe, I see France, Germany, Italy, Spain and Poland. In most of them we are in a good position as we look to 2012. We will not distinguish so much between the countries.

Mark Satchel

It is quite clear that some of our businesses are in very large countries, going back to the beginning. Some people say that we should be in other countries but we think that we have huge potential to grow in the countries that we are in. It doesn't surprise me that Rafael didn't give you just two.

Matt Lilley

What about on the margins

Rafael Galdon

On the margins, it will vary. Of course, we are feeling pressure on our margins and some countries have very high margins. We still rely on our proposition of growing our businesses while leveraging our operations. It is the only way to compete. If we really work as a single company, it will help our expenses to stay low compared to our sales. Of course, there is pressure but if we are able to maintain margins, although they may slow, we are confident.

Mark Satchel

For those of you who know the recovery programme, I liken what we are trying to do in ELAM to the Jaws factor. We have to have real growth and look for the operational efficiencies to keep the expenses going. In the longer-term, margins are clearly higher and there will be pressure. However, with growth and the fact that we aim to keep expenses low, we have no long-term view that we will be out of the range we have talked about. It is all about leveraging the operations.

Roger Hill, UBS

To what extent do you feel that you would be better off concentrating on fewer countries and be bigger in those countries? Is there any opportunity to bulk up in some countries and exit some of the smaller ones? Second, to what extent does growth in any of these countries depend on the IFA part of the sector expanding?

Rafael Galdon

In all of the markets that we are in, we have confirmed a strong business case. In some of them, we need to leverage operations. Since Switzerland is a small market, the only way to stay there and improve our business margins is to leverage from other countries. As far as we move in that direction, there are no small countries in Europe because they can all leverage from others. In Latin America, we are working in the same direction. We have some small countries, like Chile, where our business is small and we leverage from other countries. I would say that I don't see us exiting any markets. To enter new markets, we first have to convince the Group that we are able to develop our business in these countries. At the end of the year, we will present proposals to the Group. Of course, there are opportunities but we are now waiting to deliver our business plan and we will come to the Group later.

Mark Satchel

We just have a taste of what Hein is doing at the moment in creating one business in France, Spain and Portugal. By creating that, we are actually saying that we can have the same products in each country. This means that some countries may turn into sales and sales support but the real engine behind it will be somewhere else. I believe quite strongly that, for parts of our market and what we are doing, the engine for the products is exactly the same. Over time, we will find that much of what we are doing in the countries will be sales and sales support, with the engine being elsewhere. Therefore, you can be in many different countries because the infrastructure and profitability can be really high.

Roger Hill

If you are going down that road, why couldn't you do it out of Royal Skandia? Effectively, you are servicing all of the markets from one place.

Mark Satchel

You can but the offshore products that Royal Skandia has got are specialist products. We are trying to ensure that, in our ingredients of what we have, we leverage more of that offshore product into the territories that we are in so we get the best of both worlds.

Rafael Galdon

I believe that an important part of our success in creating this business was that we stayed close to our clients in the local markets. Of course, we can combine, and will do it, but we need local operations to be close to the client.

Dave Denner-Logget

I have a question for Julian regarding the bigger picture. Skandia attempted the US market and was not successful for one or two very specific reasons. Do you perceive, talking about one back-end with multiple sales areas across the world, that about to link in with the move into available annuities in the US? Do you see a lot of product overlap?

Julian Roberts

I think it is too early to say, Dave, but one of the aspects of our strategy process is asking ourselves those tough questions. Some people say that the tax regimes are still totally different everywhere and we will never get into that type of structuring. We turn around and are pushing our expertise in investment management. Knowing which funds to package together, we don't have to do that. In fact, we don't do it in each of the various countries. At the moment, we are starting the process is in the longer-term, maybe five or ten years out, to see what will be the most efficient model and where will the market go. From that moment, we will also add in things like the variable annuity question. There will be a stage where we will go into other countries but I am determined to have Skandia in a box by then. Instead of saying, like people did to Hein, go develop a business in France on your own, we will work out how we can take the best and provide it. Part of that will be product structuring.

Any more ELAM questions? If there is not, I would just like to tell you that I have the answer to the Basel II question. The cumulative spend on Basel II was SEK 32 million up to the end of April. There is around 25% more for the rest of the year. It is less because of what we have done to the project. Moving forward, we have already had the bulk of the spending.

I am conscious that we have talked a lot to you and have gone over our time. Are there any last questions on any of the businesses?

Participant

I want to go back to the Nordic business. It is very unusual to see a mature market with bank deposits this big because, even in emerging markets, you normally have individual insurance and mutual funds far exceeding bank deposits. Is there a shift away from bank deposits and, if there is, is it individual insurance, where Skandia is strong, or mutual funds, where it is weak?

Julian Roberts

As we have been going through our strategy work, it is quite fascinating to see how different countries across Europe have a totally different mix and appetite towards bank deposits and equities. Per, can you help on this?

Per

I think that the proposition that we are developing can capture a certain amount of that money in bank deposits. This can be done by introducing more mutual funds into the bank as a direct channel and we are looking at the disbursement business. There is a Skandia Bank and we will create new products that do not need all the money of today in bank deposits. With the investment portfolio platform that we are developing, we will see some new and interesting products. Earlier, we saw that structured products have increased. Equity-linked bonds and other products could be a solution to grab some of the cash in bank deposits. We are definitely trying to do that and we will have a larger share of distribution power in individual markets as a consequence of the ITP agreement.

I think we have a position there.

Julian Roberts

One of our challenges, if you look at the mutual fund business, where the banks are dominant, the banks in Sweden are always chastised heavily for the return that they give on their mutual funds. One of the things that I have noticed, and which surprised me, is that our mutual fund business is very narrow and we believe that we can broaden the access very quickly. I think that we are losing out where people can't go to Skandia Bank because it doesn't have the mutual fund that they want. Therefore, we are immediately on the back foot and the business goes elsewhere. We believe that we can broaden that range quite significantly and are doing so. You mentioned the broadening coming through, which will also have the positive knock on effect on the unit linked. It is very different in Nordic than it is in the UK. Part of our goal is to broaden it out as part of the process moving forward.

Participant

It sounds like you are improving a mutual fund offering but the question was, is the money already flowing out of bank deposits?

Julian Roberts

The money is still staying in the banks and that proportion is not moving.

Any other questions or are you all worn out? Before passing it over to Jonathan, I hope that we have achieved our objective of telling you about the business. We are doing what we said we would. We have covered a lot of ground and have some extremely good people and a broad variety of talent in this business. The demographics throughout the European business are good and the product offering is sound. I know that you will have to think a bit more about our UK offering and what Brett said. We are absolutely sure that our offering in the UK is better than other people. The proof will be in our ability to grow those net cash flows that we are getting, whether people give us more money and we are very confident that we can do it at the same time everywhere on this focus on expenses and sharing across the Group. We think the economics of our business are good and I hope that you can see that there is no complacency in any of our businesses. There is a lot to do. Each time we keep on prioritising it but we have some very high aspirations for this business moving forward and the colleagues that you have met today and will meet tonight will show you that we have some good people and a good foundation for growth.

Jonathan Nicholls, Finance Director, Old Mutual Plc

I would like to thank you and the team for putting this great presentation together. We are very excited by the acquisition of Skandia and, by the story that you have told, we can see that it is delivering and more than we hoped.