

OLD MUTUAL AGM – 7th MAY 2009 (Edited transcript)

CHAIRMAN: CHRISTOPHER COLLINS: Good morning ladies and gentlemen, welcome to the 2009, Annual General Meeting of Old Mutual plc. It's now 11.00 o'clock, a quorum is clearly present; so I can declare the meeting open.

I am Christopher Collins, Chairman of your company, and firstly, my apologies for appearing on crutches, I had a little bit of a problem on the ski slopes recently.

All of your Directors are here today, but because of space limitations, some are in the front row and let me start by introducing them.

Alongside me on the platform are, on my right, Julian Roberts, our Chief Executive, Philip Broadley, Group Finance Director and Richard Pym, who is Chairman of the Group Audit and Risk Committee. On my left, Martin Murray, our Company Secretary, and next to him Rudi Bogni, Chairman of the Remuneration Committee and our Senior Independent Director. In the front row are our further five non-executive Directors and I would ask them to stand up as I name them: Reuel Khoza, Lars Otterbeck, Nigel Andrews, Russell Edey and Bongani Nqwababa.

The Notice of this Annual General Meeting was included in a shareholder circular posted at the end of March. For those who haven't brought a copy, the Resolutions that make up the principal business of the AGM, are set out on pages 5 to 7 of the circular and this is on your chairs.

Voting on each Resolution will be conducted by a poll, rather than by show of hands. All shareholders and proxies here today should have received a yellow poll card on their way in. If you didn't receive such a card and are entitled to vote, please ask one of the attendants to let you have a card now.

For technical reasons, there are some complications that affect voting by corporate representatives. If there are any corporate representatives present who wish to vote in the polls, could they please identify themselves to our registrars, just outside the door.

Once the votes cast on the polls have been counted and verified after today's meeting, we will report the outcome to the London and other Stock Exchanges where our shares are listed and we'll also publish details on our website.

Also on your chairs is this morning's press release, containing our business update for the first part of 2009. Julian Roberts is going to make a brief presentation on this. After Julian's presentation, I will move on to the formal part of the meeting. There will then be an opportunity for you to raise any questions you may have and I propose to take questions then on all the Resolutions as a single Q&A session.

Julian, over to you.

JULIAN ROBERTS: Thank you, Chairman. Good morning and, as the Chairman has said, welcome to everybody here today.

I'd like to start with some comments about 2008 and then we'll move on to a short review of the first quarter's trading in 2009. Finally, I'll talk about what we're doing to take your company forward and the priorities we have set ourselves.

I'm sure you don't need me to tell you that 2008 was an extraordinary year. The uncertain and increasingly difficult economic environment presented challenges for all companies, most particularly those in financial services markets. The charts on the screen show a picture of the movement in global equity markets and currencies, relative to the start of 2008. You will see that, as the year went on, equity markets plummeted and the amount of volatility increased. Similarly, with the US dollar and Euro exchange rates against Sterling. The Rand exchange rate trended back towards its opening position, but again, the volatility is clear to see.

The charts also show the movements in the first quarter of 2009. You can see that things have not improved much. We are in a very different world to the one we were in twelve months ago. Equity markets have lost a third of their value. This is a difficult background against which to do business. In this context, it is unsurprising that both business and consumer confidence has fallen and all companies have faced challenging trading conditions. Old Mutual has not been immune and in addition, in 2008, we suffered from weaknesses in our US Life business. Essentially, we made some poor decisions regarding the products we were selling and sufficient attention was not given to that business from the group centre. The problems this caused put a large strain on our resources, both people and financial. I do, however, want to reassure you that, in the latter part of the year, we took decisive action to address the issues and we've made progress in de-risking these portfolios.

It is important when assessing the performance of your company that you do not let either the market issues or the problems at US Life detract from the strong performance of our underlying businesses.

Despite all the difficulties, as a Group, we made £1 billion of profit in 2008. Profits in Europe and Africa held up well compared with 2007, but were offset by the losses in US Life and a poorer result from US Asset Management. Overall funds under management fell by just 5%, despite the market falls that I showed a few minutes ago. This was a good result considering the challenges of delivering investment performance in this market.

Sales in our Nordic and South African businesses were strong, but again were offset by depressed conditions in both the UK and the USA, largely a consequence of the difficult market environments, but also in part reflecting a switch in our emphasis from sales volume to sales value.

You'll be aware that the Board decided not to recommend payment of a final dividend for 2008, which means that our total dividend for the year remains at 2.45p per share. I'd like to take a few minutes to explain that decision to you. In difficult markets, it is more than ever essential that companies keep a strong focus on their capital and liquidity. Some years ago, we did some modelling work to estimate how much capital we felt comfortable holding as a buffer. The key thing that our capital has to cover is our exposure to global markets, particularly the risk of corporate defaults in the USA. Markets are still uncertain and 2009 looks as though it will be another tough year. On that basis, although our capital at the year-end was in line with our preferred buffer, the Board felt that it was prudent to use our profits to build our capital and liquidity position and as a result, not to pay either a final dividend or an interim dividend in 2009. This decision was not taken lightly, but we have a duty to all our stakeholders to employ reasonable financial management. The Board will consider the position in respect of future dividends at the appropriate time, taking into account our capital, our cash flow and earnings, as well as the market and economic conditions which then prevail.

I'd like to move on now and bring things up to date. As the Chairman said, you have a copy of our first quarter interim management statement on your chairs. This was released to the London and Johannesburg Stock Exchanges just a few hours ago this morning. It was a tough quarter and sales levels were down on the comparative period of last year, but our performance was in line with our own expectations and we have some considerable positives to report.

Consistent with the performance in 2008 as a whole, sales in South Africa and the Nordic region were very strong in the first quarter, reflecting the strength of our brand position and distribution relationship in these areas. We have continued to take positive action to de-risk our Life business in the US. We have closed Bermuda to new business and further strengthened effectiveness of the hedges we have in place to support our existing book of business.

In the US Life Onshore business, we have cut back our product range to focus on a much smaller number of simpler products. This has inevitably dampened sales levels, but we are comfortable with that, and have cut back costs to a more appropriate level for a smaller business volume.

In line with my earlier comments on the importance of capital and liquidity as protection against uncertain markets, we have continued to manage our position pro-actively. We have hedged the sensitivity of our capital surplus to the US dollar and the Johannesburg All-Share Index, which were previously two of our main sensitivities, and our capital position has improved over the quarter, ending with a surplus above our regulatory requirements of around £900 million. We are comfortable with this, but will continue prudent management of this important area as the year progresses.

This leads me to the next area I'd like to talk about. The Group has a clear vision and strategy and we have identified priorities to take us on that journey. I have a view that my job is to set the vision for the Group, to determine the direction in which we are going, to choose the right people to manage the business and to motivate them to deliver value for shareholders. Our vision, which capitalises on our strengths, is to be the international long-term savings and investment provider of choice and the premier financial services provider in South Africa.

To me, the values of a company are absolutely critical in how that company operates and how it performs. The values that we identified for Old Mutual some years ago are: respect, integrity, accountability and pushing beyond boundaries. These are the values that I expect to see from everybody who works within the Old Mutual Group; they are not optional. The vision and the values provide the framework within which the Group operates, but what are our priorities to take us forward?

We have identified five key priorities, as you can see on the slides here. Firstly, to conserve capital and liquidity. I've already talked about this and clearly in today's market, this is our number one priority. Secondly, to streamline the Group's portfolio over time. Today, Old Mutual is complex; we are in many countries and have many different business lines. This breadth has brought complication rather than strength and has made it difficult to see the true value of the Group. We have already started the process of stream-lining. For example, we've sold our Australian businesses, we've cut back our product range in the United States, and we have reduced our Hong Kong base, but in the current market, we have to be realistic about the timeframes in which we can execute change. Our ultimate shape will not be achieved overnight, but I'm determined that we will end up with a Group that is less complex, that is more focused and will be more valuable for our shareholders. Thirdly, to leverage scale in our long-term savings business. I believe that there is very significant value that we can unlock by putting together each of our long-term savings businesses. More specifically, by putting together the skills and technology we have in Skandia with those that we have in our South African business, OMSA. To that end, I've created a Long-Term Savings division under Paul Hanratty, who is currently the Chief Executive of Old Mutual South Africa. He is tasked with driving forward these value-creation opportunities. Our fourth priority is to drive value creation in South Africa. South Africa is a great place for us to do business, its financial system has remained strong and the market for financial products is growing. Our businesses there are making good returns and they are complementary. We have already achieved benefits from them working more closely together over the last few years, but there is more that can be delivered and this is therefore a priority. Lastly, but very definitely not least, we will improve our operational efficiency, risk management and governance. In the past twelve months we've made considerable progress. We have improved our hedging, have better risk management, tighter governance processes and clearer oversight of our businesses. This momentum has to, and will, continue.

Ladies and gentlemen, I hope I have left you reassured this morning that your company is trading reasonably well in difficult environment, that we are managing our risks and becoming leaner and more efficient, and that we are financially sound.

Over the eight months since I took over as Chief Executive, we have addressed many of our issues and I believe we have a management that is capable of steering this Group through the continued tough economic environment that we will see, I believe, this year and into next year.

I'd now like to hand you back to the Chairman.

CHRISTOPHER COLLINS: Thank you, Julian. Now for the formal part of the meeting and before putting the first resolution I would like to take questions as a single Q & A session. Please wait for a roving microphone before asking your question, then please raise your shareholder proxy or corporate representative card and start by giving us your name. Are there any questions?

DR NORMAN SHIRLAW: I went into Skandia with part of my retirement savings when it was not owned by Old Mutual. Old Mutual took it over about two or three years ago and then, in the last year, through my independent financial adviser, I got a query over Skandia Selestia. There seem to have been some changes in policy with your company in the way it's managed and run. I would just like some clarity on that please and why you seem to have started with Selestia and then went back to Skandia and changed your mind as far as I can understand.

JULIAN ROBERTS: Yes. Old Mutual developed over the last seven or eight years a business very similar to Skandia UK that was called Selestia. The businesses were complementary, but because the Skandia business in the UK had been running for twenty, twenty-five years and the Selestia business only for five or six years, the technology that was used in Selestia was more modern and more appropriate moving forward. So what we had to decide over a period of a couple of years was which would be the platform and the technology we wanted to use, and then to migrate our customers on to the platform we wanted.

What we had decided in the interim, which I can accept is confusing to many, is that we would carry on running with both brands. Then a decision was made during last year that it was easier and less confusing to migrate the Selestia brand, so we just kept one brand and that was Skandia. I apologise if it was confusing, it is one of those difficulties when you try and integrate two businesses and you want to cause the least upset, but now everything has been re-branded Skandia. That business is largely using the more modern platform of Selestia and I believe is working quite well.

DR NORMAN SHIRLAW: So the minimum £50 a year fee that Selestia was going to start charging, has that been withdrawn then?

JULIAN ROBERTS: In the recent period, we have reduced very significantly the pricing structure that Selestia and Skandia were going to have and I think, generally, our customers have been receptive to our charging structure, which we believe is cheaper than all the competitive platforms around.

DR NORMAN SHIRLAW: Thank you very much. A last one – have you put that in writing to the holders, of Skandia policies? Should I have had something in the post that I missed?

JULIAN ROBERTS: I will check up for you about what communication has been made.

HARKER MOOR: Good morning Mr Chairman. The name is Harker Moor, shareholder. I was wanting to ask about the 40% drop in the share value since the last Annual General Meeting and it would be interesting to know how Sanlam, a major competitor in South Africa, had fared and I was wondering if Old Mutual had succumbed to the sub-prime disaster in the States, whether we were involved in it. That was my first question. My second one was, how does Old Mutual see Nedbank's future? I think Old Mutual has about a 55% shareholding in Nedbank. What do you envisage the future of Nedbank to be in Old Mutual?

CHRISTOPHER COLLINS: About the share performance, naturally, we very much regret the share price performance, but we have broadly kept pace with our UK peer group and most companies have had a very difficult time in these unprecedented financial conditions. The South African national companies have done better because South Africa has been largely insulated from the credit crunch problems. Compared internationally, not that it's anything to be proud about, we have held our position and in fact, since the beginning of the year, we have outperformed our UK peer group: But obviously we're not satisfied and look forward to taking the company forward.

With regard to Nedbank, I think that's an appropriate question for Julian to answer.

JULIAN ROBERTS: The South African position has been fairly robust, as the Chairman has just said. There is clearly now a slowing down in GDP growth, which may even be slightly negative in 2009. What we are seeing is a slowdown in banking. Nedbank's results, released this morning, were very much in line with the other banks in South Africa. We are seeing borrowers beginning to struggle to pay interest charges on their mortgages. Nedbank has improved as a bank very significantly over the last three or four years under Tom Boardman's stewardship. I think we are still leading in the corporate area, and in the investment banking area, and we are holding our own in the retail space, although we would like to grow it further. I think we've got a very good management team in Nedbank and we do believe that we are continuing to move that bank forward. We have a strong capital base and it is quite clear that we want Nedbank to remain one of the four major banks in South Africa.

LEON BONNIE: Good morning. My name is Leon Bonnie. I have three questions. I know everybody is blaming the recession for the share price and the cut in dividend, but I just wondered who caused the recession? Secondly, can you tell me how much was the cost of the overrun of integrating Skandia and Old Mutual? Thirdly can you give me the average wages with bonuses included for the top paid 10% of staff?

CHRISTOPHER COLLINS: With regard to your question about the cause of the recession, it would be presumptuous for us to opine on the cause when so much commentary has been written on it and very intelligent people often disagreeing about the cause of it. Suffice it to say that we all have been caught up with it, but at the moment, the general consensus is there are now some possible green shoots appearing. With regard to Skandia, I'm going to hand that over to Julian, with his close knowledge of the subject.

JULIAN ROBERTS: If you go back to the Interim Financial Statement of 2008, where we did the close-down of the integration, you will see that at that stage, the integration costs that we set out that we would incur, were lower than our target. We confirmed out that we had reached and exceeded the integration savings that we had predicted when we bought it. We had said that we were aiming, over a three-year period, to increase the profits from Skandia from somewhere around £100 million to £300 million in that integration period. At the interim stage last year, the profits were running at £270m, so very close to the three-year target that we were expecting by the end of 2008. So the integration did go well and very much in line but, when you get to the end of 2008, the market downturn did mean that our profits didn't reach the £300 million. But I have to say, all of the things that we set out to do with the Skandia business, we did do within that integration period.

CHRISTOPHER COLLINS: And with regard to your third question about the amount of pay for the top 10% of the company, I'm going to look to Philip Broadley, but I imagine we're going to have to answer this off line.

PHILIP BROADLEY: I fear we will. It's not a number that we calculate and we would have to research it for you.

DEREK HUDSON: Mr Chairman, my name is Derek Hudson. I've had a personal link with Old Mutual for 72 years and one of my ancestors was on the first Board of Directors of Old Mutual. What I observe is that all the business outside the United States of America is either profitable or very profitable. And the really big loss was in the United States. If that is the case, somebody really made a mess of their due diligence when they did the original investment in the United States. What has Old Mutual learnt, if I'm correct in my analysis, from that fiasco?

CHRISTOPHER COLLINS: We fully accept that we have had considerable difficulties in the last year or so in the United States and Julian has worked very hard to fix this. The position is looking rather better than it was, but we don't disagree with your analysis that the rest of the world is doing well or reasonably well, that our problems really have been almost exclusively in the USA.

VICTOR DE SOUZA: Morning Chairman, my name is De Souza. Regarding dividend, we are holding shares here for so many years and all of a sudden you are stopping paying dividends. Is it suspended for a little while or is it permanent cos otherwise, we are not interested in holding the shares a long time. Can you give me guarantee, are you going to pay that dividend back?

CHRISTOPHER COLLINS: The shareholder is asking about the future of the dividend and we did of course pay an interim dividend during 2008 for the year. The Board agonised over this decision, but in the end it was unanimously decided that prudence should win the day and that we should not pay a final dividend and we have announced that we're not intending to pay an interim dividend either during 2009. As Julian said, the position will change when circumstances change and it obviously will be almost a first objective to return to a dividend-paying position. Dividends will be resumed at the appropriate time, but they will be based on the profits for the relevant period then.

JOHN GORDON: My name is John Gordon, I'm a small private shareholder. My question relates to the policy with regard to share buybacks. This was quite a fashion in the UK and, I dare say, elsewhere a year or two ago and I think Old Mutual itself had a share buyback programme and bought shares in at 150, 180 pence, that sort of level. Many companies now regret having used up cash resources in that way, in the light of what's happened subsequently. In that respect and having regard also to the strategy priority number one, which was to conserve capital and liquidity for Old Mutual over the coming period, it's slightly surprising, I thought, to see that you have a resolution today to embark on a new share buyback programme. Assuming you get approval for that, have you got in mind some kind of internal cash level to which you have to rise before you, the Board, would envisage embarking on a share buyback programme?

CHRISTOPHER COLLINS: We've put this resolution in because it is included every year to retain flexibility, but, as I said earlier in response to the dividend question, the Board is governed by an attitude of prudence towards its financial position and a share buyback would only be embarked on if it was thought to be in the best interests of shareholders and entirely safe so to do.

Any further questions?

If there are no further questions, I will now move on to the formal part of the meeting. I should add that we have had from one or two shareholders questions which were written in and we will respond to those on an individual basis.

As I said earlier, we will be conducting the voting by poll. Shareholders, please fill in your poll card for each Resolution, as I refer to it. Corporate representatives should enter a direction on their directions card. Computershare has kindly agreed to act as scrutineer for the polls.

Those of you who have already sent in proxy forms and don't wish to alter your vote, need not complete a poll card, in fact it would make the count of votes simpler, if those shareholders who have already sent in proxy forms, refrain from voting now.

Each shareholder should complete one poll card. If you've been appointed as a proxy, you should complete one poll card for each shareholder, for whom you've been appointed. If you have any queries on filling in your card, please raise your hand and a member of Computershare will be happy to help.

On your poll cards, please fill in your name and shareholding, or if you're a proxy, the name and holding of the shareholder you're representing. Please clearly mark your votes "for", "against" or "vote withheld" on each Resolution. Please then sign and date your completed poll card. When completed and signed, poll cards should be placed in the purple ballot boxes as you leave the room.

Moving on to the Resolutions, I now propose Resolution 1, to receive and adopt the Report and Accounts for the year ended 31st December 2008. Please cast your votes on Resolution 1, by filling in your poll card.

Resolution 2. In accordance with our Articles, a number of directors are standing for election or re-election to-day. I'd like to start by proposing Resolution 2(i), the election of Philip Broadley as a director of the company. Please cast your votes on Resolution 2(i) by filling in your poll card.

I now propose Resolution 2(ii), the re-election of Rudi Bogni as a director of the company. Please cast your votes on Resolution 2(ii) by filling in your poll card.

I now propose Resolution 2(iii), the re-election of Reuel Khoza as a director of the company. Please cast your votes on Resolution 2(iii), by filling in your poll card.

I propose Resolution 2(iv), the re-election of Julian Roberts as a director of the company. Please cast your votes on Resolution 2(iv), by filling in your poll card.

Moving on to Resolution 3, this relates to the re-appointment of KPMG Audit Plc as auditors of the company and I'm going to call on Richard Pym, Chairman of the Group Audit and Risk Committee, to propose this Resolution.

RICHARD PYM:

I have pleasure in proposing that KPMG Audit plc be re-appointed as auditors of the company.

CHRISTOPHER COLLINS:

Thank you, Richard. I now put Resolution 3 to the meeting, please cast your votes on Resolution 3 by filling in your poll card.

I propose Resolution 4, that the Group Audit and Risk Committee of the Company be authorised to settle the auditors' remuneration. Please cast your votes on Resolution 4 by filling in your poll card.

I'm now going to turn to the special business of the meeting. Resolution 5 is an Ordinary Resolution to approve the Remuneration Report and for this one, I'm going to call on Rudi Bogni, Chairman of our Remuneration Committee, to propose this Resolution.

RUDI BOGNI:

I have pleasure in proposing the approval of the Remuneration Report.

CHRISTOPHER COLLINS:

Thank you, Rudi. I now put Resolution 5 to the meeting. Please cast your votes on Resolution 5 by filling in your poll card.

Resolution 6 is an Ordinary Resolution. It grants the directors authority to allot relevant securities up to an aggregate nominal amount of £52,767,000. Please cast your votes on Resolution 6 by filling in your poll card.

Resolution 7 is a Special Resolution, authorising the directors to allot equity securities up to a maximum nominal aggregate amount of £26,383,000. I now propose Resolution 7 as a Special Resolution, and this requires a 75% majority of votes in favour. Please cast your votes on Resolution 7 by filling in your poll card.

Resolution 8 and 9 are Special Resolutions. They set out the mechanisms by which the company may buy back its own shares on the five Stock Exchanges where they are listed. There are two separate Resolutions because of legal technicalities, but the overall effect is intended to be the same as a standard buy-back authority. I now propose Resolution 8, the authority to buy back shares on the London Stock Exchange, as a Special Resolution. Please cast your votes on Resolution 8 by filling in your poll card.

I now propose Resolution 9, the approval of contingent purchase contracts that will enable the company to buy back its shares on the other four exchanges where we are listed, as a Special Resolution. Please cast your votes on Resolution 9 by filling in your poll card.

Resolution 10 is a Special Resolution to permit the company to continue to convene general meetings, other than the Annual General Meetings, on 14 days' notice. I propose Resolution 10 as a Special Resolution. Please cast your votes on Resolution 10 by filling in your poll card.

As I shall be retiring as Chairman at the end of 2009, this is my last AGM at Old Mutual. The process for selecting my successor is being led by Rudi Bogni, as senior independent director, and this is making good progress. We hope to make an announcement within the next two or three months or so.

This now brings to a conclusion the business of the Annual General Meeting so I can declare the meeting closed.

Please place your completed poll cards in the purple boxes as you leave the meeting. Any corporate representatives should hand their directions cards to a member of Computershare staff.

Refreshments will be now available next door and we'll all be around, if you want information or help or further discussion. May I conclude by thanking you all very much for coming to the meeting today.