OLD MUTUAL plc
Preliminary Results for the year ended 31 December 2000

HIGHLIGHTS

- Operating profit* increased by 38% to £911 million (1999: £661 million).
- Asset management operating profit up 158% to £124 million (1999: £48 million).
- Banking operating profit up 56% to £327 million (1999: £210 million)
- Life assurance operating profits on continuing operations increased 12% to £478 million (1999: £426 million) and 20% in Rand terms to R5,029 million
- Underlying life assurance new business embedded value profits increased 16% to £72 million (1999: £62 million).
- Operating earnings per share* increased 38% in Sterling terms to 17.0 p (1999:12.3p), which equates to a 48% growth in Rand terms to 179.4c (1999:121.4c)
- Proposed final dividend of 3.1p makes a total for the year of 4.7p (1999: proforma 4.0p), up 18%
- Embedded value of £5,553 million (R62,831 million) is up 3% in Sterling terms and up 17% in Rand terms.

*Operating profit and operating earnings per share are stated before goodwill amortisation and have been calculated using a long term rate of return.

6 March 2001

Mike Levett, Chairman and Chief Executive comments:

"These are excellent results. We have made significant progress through continued development of core businesses and, through focused acquisitions have established a strong foundation upon which to build our businesses for customer and shareholder value in the years ahead."

CHAIRMAN'S STATEMENT

Commenting on the results, Mike Levett, Old Mutual's Chairman and Chief Executive issued the following:

This past year has seen the Group move rapidly to develop its core businesses and build an international presence through acquisitions in the United Kingdom and the United States. Our acquisitions of the Gerrard Group in March 2000 and United Asset Management Corporation (UAM) in October 2000 have strengthened our international platform to complement our formidable base in the South African financial services market.

Our operating profit of £911 million[1] has grown by 38%, with our newly acquired companies contributing £33 million in the periods of 2000 for which their results were consolidated. Operating earnings per share has increased by 38% to 17.0 pence and embedded value increased 3% to £5,553 million.

The Group was delighted to obtain an A2 senior unsecured issuer rating from Moody's Investor Service in November. This rating is important to the Group in optimising its capital structure through appropriate use of debt finance.

Life Assurance

Operating profit at our life operations was £478 million, an increase of 12% in Sterling terms (20% in Rand terms). You will remember that the comparative figures for 1999 include a number of one-off positive effects arising from last year's very strong investment market.

The underlying value of new business on an embedded value basis increased 16% to £72 million after taking into account the impact of the new tax regime in South Africa and demutualisation effects.

The Group reorganised its individual life operations in South Africa into three segments this year to improve service and the quality of products offered to customers. We have also successfully launched a number of individual and group product ranges and bancassurance initiatives, and have managed costs effectively to enhance shareholder value.

Internationally, the Group entered into a joint venture in life assurance with Kotak Mahindra in India, in September. We have recently announced the acquisition of Unified Life, which will provide a platform to sell a suite of annuity and term products in the US through brokers.

[1] Operating profit is stated before goodwill amortisation and has been calculated using a longer term rate of return.

Asset Management

The operating profit of our asset management businesses increased 158% to £124 million from £48 million in 1999.

Our asset management business took a significant step forward following the acquisition of UAM for $ 2.9 billion in October. This acquisition added some $200 billion of funds under management. As part of our ongoing review of the business, we have commenced the restructuring of UAM's operations, forming Old Mutual Asset Managers (US) from seven affiliates who, together with Pilgrim Baxter, have entered into new arrangements designed to allow full earnings participation rather than operating in accordance with the revenue-sharing arrangements previously in place. We are delighted with the way the management of these enterprises have endorsed these initiatives.

Our private client business has also undergone significant change this year, following completion of the acquisition of Gerrard Group plc for £529 million in March 2000. Greig Middleton and Capel Cure Sharp have been relaunched under the Gerrard name and are now under one management. As with any large integration, there are some hurdles to overcome over the short term, however, we are confident of meeting the challenges ahead. The money market operations of Gerrard & King, the discount house acquired as part of Gerrard Group, were wound down over the last quarter of 2000, and its collateral management capability was rehoused under its fellow subsidiary, GNI.

Banking

The operating profit of our banking business increased by 56% to £327 million from £210 million in 1999, with the main contributor to these results being Nedcor, our 53% owned subsidiary. Nedcor continues to meet world class operational standards, whilst investing prudently in technology and retail joint ventures that will provide future opportunities for growth and development. Following the successful flotation of Dimension Data Holdings plc on the London Stock Exchange in December, Nedcor restructured its holdings in the Dimension Data group, retaining an 8% interest in the listed company. This restructuring resulted in a gain of £356 million being recorded in the profit and loss account as a non-operating item.

General Insurance

The contribution of Mutual & Federal Insurance Company, our 51% owned general insurance subsidiary, to the Group's operating earnings, benefited from a marked improvement in underwriting results in the second half of 2000, as well as from its £106 million acquisition of CGNU's South African business during the fourth quarter. Investment return was lower as a result of the impact of special dividends on asset values. Mutual & Federal has maintained its position as one of the leading general insurers in South Africa.

Market factors

The Group's presentation of operating earnings using a long term rate of investment return smooths out the volatile effects of market movements on the Group's results for the year. The effect of actual market movements on shareholder investment values is depicted as short term fluctuations, which were an adverse £180 million in 2000, principally reflecting movements in the JSE All Share Index. Profit after tax and minority interest for the year was £506 million compared to £1,066 million for 1999.

Whilst operating earnings in South Africa have been strongly positive in Rand terms, their contribution to Group profit has been affected by the continued depreciation in the Rand/Sterling exchange rate, which, using average rates, is some 7% down on 1999. This reduced operating profits for 2000 by approximately £59 million, compared to the average exchange rate that prevailed in 1999.

Management/Employees

I am pleased that in the last year we have significantly strengthened management of the Group. Jim Sutcliffe joined as Chief Executive, Life, in January 2000, and Julian Roberts as Group Finance Director in August 2000, following Eric Anstee's appointment as Chief Executive, Financial Services. Richard Laubscher, Chief Executive of Nedcor, was appointed as an Executive Director of the Company from 1 January 2001.

In addition to appointing a new Chief Executive for our South African Life operations, we have recruited key personnel for our UK businesses, and taken important steps to restructure and strengthen management within our newly acquired US operations. To all our new colleagues in the Group, I would like to extend a particularly warm welcome. I would also like to thank all employees of the Group for their contribution to Old Mutual plc in an exciting and successful year.

Dividend

The directors are proposing a final dividend of 3.1p per share, making a total dividend for the year of 4.7p per share, an increase of 18% on last year's proforma. Using current exchange rates, this represents a final dividend of 32.7c and a total for the year of 49.5c, an increase of 26%. The dividend is covered 3.6 times by an operating earnings per share of 17.0 p.

The dividend, which is subject to approval at the AGM on 18 May 2001, will be paid to shareholders on the register at the close of business on 20 April 2001 (record date) for all the exchanges where Old Mutual plc's shares are listed. The shares will trade ex-dividend from the opening of business on 18th April 2001. The local currency equivalents of the proposed dividend for shareholders on the South African, Malawi and Zimbabwe branch registers and the Namibian section of the principal register will be determined using exchange rates on 12 April 2001. The conversion rates will be announced by the Company on 17 April 2001.

Outlook

The Group set itself a great deal to accomplish in 2000 and has worked hard to drive through its strategy. The economic environment affecting our businesses remains important to future performance, and conditions may prove challenging in 2001. We are confident however that the foundations we have established this year provide a sound platform for building value for the future.

MIKE LEVETT
Chairman & Chief Executive

6 March 2001

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BUSINESS REVIEW

Life Assurance

This year has seen significant progress in our life assurance businesses. In South Africa we have appointed a new, young management team following Gerhard van Niekerk's well earned retirement, reorganised the business with much greater customer focus, and significantly extended our technology platforms.

Outside South Africa we have acquired licences to start operations in India and the USA and built new distribution relationships in the Far East.

We achieved world class results from our continuing life businesses with operating profit up 12% at £478m, a return of 23% on internal capital allocated (1999:20%), and the embedded value of new business topped £74 million, with the margin on sales being 22%. After adjusting for the effects of demutualisation premiums and the new South African life office tax regime, the underlying value of new business was up 16% in Sterling terms.

The increase underlying operating profit in Rand terms was 24%. The growth in operating profit derived mostly from capital charges on the high asset base arising from the strong equity markets during 1999, and tight expense management.

New business annual equivalent premiums (valued for embedded value purposes) were up 3% in Sterling terms, with sales in South Africa up 16% in Rand, excluding the windfall effects of the demutualisation in both years. Single premiums were strong both in and outside of South Africa, and group business recurring premium sales more than doubled.

South Africa

Group Business

Financial performance

Our Group business, Employee Benefits, delivered an excellent operating profit for the year, which at £85 million was 27% higher than the £67 million achieved in 1999. This performance principally reflects the impact of a high opening asset base, coupled with improved fee levels and expense savings from last year's Project 500 initiative. The value of new business increased 7% from £27 million to £29 million, although margins fell from 49% to 38% primarily as a result of business mix changes.

New recurring business premiums were £48 million, an increase of 129%, compared to £21 million in 1999, principally arising from a higher volume of risk products sold.

Single premiums (excluding certain market-linked business, where profits are reported under Asset Management) were lower when excluding the re-investment effects of demutualisation share sale proceeds in both years.

Employee Benefits continued to lead the Guaranteed Fund market in 2000 and declared bonuses for the 1999/2000 year giving policyholders a return of 16% in our flagship product, following strong investment performance in that period.

Product innovation

The group developed a number of innovative products during the year. *Symmetry*, launched in August, provides a multi-manager capability to complement our with profits range, and is already a growing presence in the multi-manager market. *Synergy*, launched in May, is a new short-term disability product. October also saw the launch of our optional risk benefits product (*ORB*), which offers members flexibility of product choice within a group risk arrangement.

Further progress has also been made in the area of group retirement fund administration. In June we launched *Splitfunder*, a computer application that ensures the efficient transfer of member-level investment choices to a wide choice of asset managers. During the second half of the year we added the capability of electronic data and money exchange known as *Dataway*. This has provided the business with a more efficient, web-enabled, customer service and improved controls.

Moving forward

The market for outsourcing pensioner liabilities remains strong, although the uncertainty surrounding regulation of distributions of pension funds surpluses is holding some clients back. Employee Benefits has the products and financial strength to continue attracting significant flows from this market. In addition, the market for more flexible open fund arrangements is developing and we are rapidly adapting our products to meet this demand. We will continue to invest strongly in providing service improvements through better IT systems.

Individual Business

Financial performance

Operating profit of £165 million was 2% lower this year than the £168 million earned in 1999, although 13% higher in Rand terms after excluding costs of £13 million previously reported as shareholder expenses. Higher margins were earned from high asset levels in the first part of the year.

The value of new business at £38 million was 36% higher than the £28 million in 1999 primarily as a result of a reduction in the cost of financing acquisition expenses. New single premiums, at £805 million, increased 15% from a high 1999 base of £697 million with the *Investment Frontiers* range in particular continuing to attract flows in excess of £540 million.

Total individual recurring new business premiums of £131 million were disappointing, at some 7% below 1999 levels of £141 million. This principally reflected the adverse impact of the sales force reorganisation on agent headcount and deliberate action to exit unprofitable business areas. Agent numbers have, however, now stabilised and the planned rollout of a new sales methodology was completed in October. Some improvement in volumes was evident in the second half of the year and importantly, persistency, average case size, and agent productivity trends were positive.

Within these numbers, our affinity group business, Group Schemes, continued to perform well, with new business premiums this year up 27% on the prior year. Alliances with Peoples Bank and JD Group, and other initiatives into the private sector represent a significant opportunity for future growth.

Product innovation

This year has seen the development of a number of innovative new products for the individual client. In June 2000, we launched the *Essential Savings Plan*, which is an affordable savings plan for entry-level investors and, in November, we launched the *Investment Horizons* range of savings and investment products for the middle market.

We have also made considerable progress in the second half of 2000 building our bancassurance joint venture with Nedcor. In addition to the Peoples Bank/Group Schemes arrangements, we are embarking on a series of product and distribution initiatives aimed at middle and high-income customers.

Following the launch of our *Mint* high net worth brand in July, we have established a specialist salaried advisory service aimed at improving our penetration in this competitive high value market.

Regulation

Following concerns over increasing debt-levels of Government employees and the activities of unlicensed micro lenders, the South African Government announced, during 2000, plans to phase out non-statutory deductions from the payroll of government employees (*Persal)*. This method is also widely used by the Group for premium collection, particularly in our Group Schemes business.

We have played an important role in the dialogue between Government and the life industry to mitigate the effects on our customers and welcome its intention to continue to allow insurance premiums to be deducted from government employee payrolls.

Moving forward

The individual market is changing rapidly in South Africa. The Group is therefore planning for further product launches in 2001 aimed at ensuring a comprehensive and competitive range of savings, risk and investment products in each market segment. At the same time, we are moving our products on to new-generation administration platforms, pioneered for our successful *Investment Frontiers* range, and aim to deliver significantly improved service levels.

We also aim to expand our market reach by growing our Personal Financial Advice distribution force in the middle income market without compromising on the higher entry requirements introduced following the restructuring of the agency sales force, and by building a new sales team focused on the emerging middle market.

Technological developments

This past year has seen an aggressive roll out of our deployment of Information Technology in key areas such as rapid product development systems, and e-commerce where we launched our 4^{th} generation website and low cost administrative platforms. The launch of *Investment Horizons* and the *Essentials* product range on a lower cost administrative platform was a key feature, together with the web enablement of *Investment Frontiers* which now allows our customers to interrogate their accounts and monitor performance on-line.

In addition to our own developments in the e-commerce arena, we jointly formed *Miraculum*, in August, with Dimension Data and Nedcor, to compete in the growing electronic procurement services market. We also acquired a 20% strategic shareholding in *Internet Solutions*, the leading business to business internet service provider in South Africa, in which Nedcor also holds a 20% stake. These investments will secure access to scarce skills and intellectual capital within the rapidly evolving e-commerce marketplace.

Customer focus

In October we announced the re-organisation of the individual product businesses and distribution channels around major customer segments, High Income, Middle Income and Emerging Wealth. This change has given us the opportunity to build a management infrastructure focused on the specific needs of each of our major customer segments.

This new customer focus called for a change in culture within the organisation which is being driven by an initiative, Siyakhula (a Xhosa phrase which means "We Are Growing"), recently rolled out to our employees. It aims to harness our employees' energy within our overall business strategy and to ensure that the virtuous circle of satisfied customer needs, shareholder value, return to the community and employee development is completed.

Investing in People

During the year Gerhard van Niekerk announced his retirement as managing director of Old Mutual South Africa, effective 1 March 2001 following a long and distinguished career. We are all grateful to him for the huge contribution he has made over the years. He is succeeded as MD by Roddy Sparks, whose 15 years at Old Mutual have included appointments as Executive General Manager of life investments, finance and most recently, responsibility for the non-life businesses. Also appointed were Peter Moyo, as Deputy MD responsible for institutional business, and Peter de Beyer, Deputy MD, focusing on individual business.

In February 2001 the Group established Old Mutual Business School, which will provide educational opportunities for staff at all levels, and significantly enhance our skills to deliver better value products and services for customers, and profitable growth to our shareholders.

Rest of the World

International and Offshore

In 2000, our international and offshore expatriate businesses embarked on a fresh strategy, which organised the Group as a provider of quality single premium bonds and multi-manager offshore unit trusts into South Africa, the Far East and other markets.

We have made considerable progress focusing our product range on high quality single deposit offerings, with both internal and external asset management and we teamed up with Nedcor in the Far East to launch a range of innovative unit trust products.

In addition to developing our core operations, during 2000, we started work on a project to bring localised versions of our South African *Investment Frontiers* product to the UK. This product is expected to be launched towards the end of 2001.

In India, our joint venture with OM Kotak Mahindra was one of the few companies to receive its licence in December, and we are well advanced in the development of products and the building of the sales and service teams.

In the USA we acquired a widely licensed company Unified Life in February 2001, which will provide a platform to sell fixed and equity-linked annuities. We have hired a powerful team of executives for this venture led by Guy Barker, previously Chief Executive of Natwest Life in the UK and before that Chief Actuary of Jackson National in the USA.

Rest of Africa

The Group's operations in Zimbabwe continue to suffer from political turmoil, which was heightened this year by disturbances surrounding the General Election. Our business, which is the largest financial services business in the country, continued to be profitable, but rapid currency devaluation has significantly reduced its contribution to the Group's results. Our Namibian business made steady progress.

FINANCIAL SERVICES

The Group's asset management capability took a significant step forward in October with the acquisition of United Asset Management Corporation (UAM), one of the largest independent investment management organisations in the world. The US market is the world's largest both for institutional and retail/individual assets and the acquisition gives the Group a diversified range of investment managers, styles, asset classes and clients and now makes the Group one of the top 30 asset managers in the world, classified by funds under management.

Total operating profit across the financial services segment of £124m increased 158% from £48 million in 1999 due primarily to a contribution of £57 million from businesses acquired in the year. A Gerrard Group profit of £13 million (after charging integration costs of £14 million), was included in Group earnings from 31 March 2000, and earnings of £44 million were generated by UAM from 5 October 2000.

Asset Management Worldwide

Our asset management businesses performed well in 2000, with operating profits at £97 million growing 116% from £45 million in 1999. Excluding the contribution of UAM, existing operations produced a 18% increase in profit, with Old Mutual Asset Managers SA and Old Mutual Unit Trusts performing well. Funds under management increased by 276% to £169 billion primarily as a result of the UAM acquisition.

United Asset Management

Financial Performance

UAM operating profits of £44 million for the period since acquisition represent a strong result in light of difficult market conditions in the last quarter of the year. The UAM Group ended the year with £119 billion of funds under management, down 14% from acquisition, principally reflecting the Nasdaq driven lower market levels during the fourth quarter and the £6 billion of funds which left the Group through planned divestiture. In spite of the market downturn, net cash flows at Pilgrim Baxter were positive, as the diversity of Pilgrim Baxter's product range softened the market effects. The trend toward value managers also became increasingly apparent as cash out-flows from these managers slowed in the last quarter.

The investment performance of UAM's firms during the year reflected the breadth of talent and the full spectrum of capabilities within the organisation. Whereas growth-orientated managers in the US performed well in the period of market growth during the first quarter, OMAM(US)'s value-orientated managers, Barrow, Hanley, Mewhinney & Strauss, and NWQ Investment Management together with certain other UAM firms, achieved superior results during the market's move to value in the last quarter.

Restructuring

Working closely and cooperatively with affiliate senior executives, the Group successfully completed the reorganisation of UAM into three focused groups:

- Old Mutual Asset Managers (US): seven affiliated firms providing focused, multi-style, multi-product capability;
- Pilgrim Baxter & Associates, our major retail funds franchise and distribution platform; and
- A strategic group consisting of the remaining UAM affiliates providing a wide variety of capabilities, primarily to the institutional marketplace.

In November 2000, we announced the restructuring of our relationship with Pilgrim Baxter & Associates. The restructuring moved the company from a historical revenue-sharing model to profit sharing, in order to align incentives with the Group's objectives.

Since then, we have also announced similar arrangements whereby Acadian Asset Managers, Analytic Investors, Barrow, Hanley, Mewhinney & Strauss, Clay Finlay, Dwight Asset Management, NWQ Investment Management and Provident Investment Counsel all moved to a profit sharing model under OMAM(US). These affiliates will work together, and with our other international asset management businesses, to meet client needs and seek opportunities for co-operation.

The remaining UAM affiliates are being carefully reviewed and evaluated to determine the most appropriate future strategy for each firm. These discussions encompass a range of options, including joining OMAM(US), remaining indefinitely as a stand-alone firm inside the Group, merging with another UAM firm, or possible alignment with other third parties. The process of working with the firms is collaborative, keeping in mind the needs and interests of the firms' clients, principals and employees.

New opportunities

Since acquisition we have further developed some research and development initiatives already underway in UAM. In particular, we have established eSecLending Securities as a separate company, to be based in our Bermuda office and targeted to create a new globally-operated internet-based auction system for securities lending. The first auction with our US partner CalPERS took place very successfully in October 2000.

Moving forward

Going forward, there will be many opportunities for our asset management businesses worldwide, as the Group takes advantage of the closer links with UAM affiliates, and continues its restructuring programme. Our strategy focuses on providing our institutional and retail clients with high standards of performance and service to build value and maximise cross-business synergies, particularly between Gerrard and UAM.

Old Mutual Asset Management – South Africa

Financial performance

OMAM(SA) delivered excellent results this year with operating profits of £19 million, up 68% in Rand terms from 1999. This principally resulted from higher market values throughout the first half of the year, focused expense management, and enhanced overall fee levels from new and existing mandates.

Relative investment performance in South Africa, whilst not as strong as the previous year, was satisfactory across the range of products during the year. For the second year running, OMAM(SA) was rated the No.1 fund management company in South Africa by the management of listed corporations in the annual Reuters Survey on Global Emerging Markets.

Old Mutual Unit Trusts (OMUT) delivered excellent results this year, with operating profit of £16 million, up 40% in Rand terms on the previous year. This result was in spite of poor JSE performance as investor flows were directed to global funds, with OMUT benefiting from strong trading profit and the timely launch of higher margin offshore funds and the continued success of its range of Fund of Funds products.

Gross sales amounted to R11.5bn, an increase of 31% over the previous year. After achieving record inflows in the first half of the year as a result of the launch of ten Rand-denominated global funds, these funds reached exchange control limits in August and were consequently closed. This, together with a change in sentiment by wrap fund managers, resulted in a slowing of sales during the second half.

Launch of FundsNet

2000 also saw the launch in November of *FundsNet*, an Internet-based investment platform giving investors and intermediaries 24-hour access to an extensive range of unit trusts from Old Mutual and other leading South African asset managers.

Rest of world

Re-launch of Old Mutual Asset Managers (UK)

The year 2000 represented a year of significant and exciting change for OMAM(UK), following a strategic review of the business, coinciding with the move of the previous CEO, Kevin Carter, to the USA. John Ainsworth was appointed Chief Executive toward the end of the year and brought with him a highly regarded team of investment professionals. The team is now working to establish OMAM(UK) as the Group's UK asset management platform and to aggressively grow its third party specialist institutional mandates and retail business.

In November 2000 the European fund was relaunched, led by Adrian Farthing, and in February 2001, under Ashton Bradbury, the team successfully launched a new UK Select Smaller Companies Fund.

Gerrard

Private Client UK

Merger and Restructuring

In March 2000 the Group's offer for the Gerrard Group was finalised adding Greig Middleton's private client business to Capel Cure Sharp Limited. Throughout the year our management teams have worked to integrate and merge the two businesses at all levels, and co-locate their operations in London and selected branches.

In December, the group re-branded Greig Middleton and Capel Cure Sharp under the 'Gerrard' name. The combined Gerrard business is the UK's largest high net worth private client asset manager, offering a wide range of discretionary, advisory and managed services from 31 different office locations.

Financial Performance

Operating profit, before integration costs of £14 million was £26 million for the year, incorporating a full year's contribution from Capel Cure Sharp and nine months' contribution from Greig Middleton.

Operating profits from our legacy CCS business were adversely affected by regulatory and system issues, which arose from the high business volumes experienced in the first half. These issues resulted in changes of management of the business and a £4 million charge for additional costs following the recruitment of temporary resources by the Group to manage the problem and rectify the issues involved.

We have strengthened the management team during the latter part of the year following the retirement of Richard Bernays. Stephen Clark was appointed Deputy Chief Executive and Chief Operating Officer of Gerrard in August and Clive Boothman was appointed Chief Executive in September 2000. A new Chief Financial Officer, Peter Meyer, was appointed in December 2000.

The restructuring plan following the merger remains on track to secure improved revenue sources and future annualised cost savings of approximately £15 million from a total restructuring cost outlay of £25 million. The timing of delivery has been delayed as a result of a required change to our IT strategy for the combined group to secure operational platforms that are sufficiently robust to deal with high trading volumes similar to those experienced in the first quarter of 2000.

Revenues of £149 million were 6% better than the previous year on a like-for-like basis, despite the transfer of revenue from Institutional and Corporate business from Greig Middleton to Old Mutual Securities and GNI during the year, as part of the post acquisition rationalisation. Commissions continued to be strong and, in spite of flat to lower market and fee income levels, improved as charging structures were extended throughout our client base and clients moved toward more discretionary services. CCS unit trusts performed well, particularly in the first quarter of the year.

Market conditions during the year to December 2000 were challenging as the APCIMS balance benchmark fell by almost 5% and the FTSE fell by nearly 10%. Total funds under management at £20.9 billion increased 118% from £9.6 billion in 1999, principally through the acquisition of Greig Middleton, however, market movements and net fund outflows have somewhat offset this effect.

Moving forward

The continued integration of the Capel Cure Sharp and Greig Middleton businesses offers exciting opportunities to leverage the different skill bases within each organisation. Over 2001, it is our intention to produce a broader and enhanced range of both products and services and to leverage the now rebranded "Gerrard Investment Funds". Significant focus will also be placed on successful delivery of several key transaction processing and client service infrastructure projects.

Other Financial Services

Operating profits of £15 million for other financial services businesses were either purchased following the Gerrard acquisition or earned by newly established businesses.

GNI

Trading in GNI's business has been satisfactory despite market conditions, which saw volumes at low levels in the second half of the year. Operating profit of £8 million for the nine-month period ending 31 December 2000, benefited from further development of equity products. GNI now houses the collateral management arm of Gerrard & King, the former discount house business of the Gerrard Group, which was substantially wound down at the end of 2000. GNI remains at the centre of technological innovation for the asset management division.

GNI Fund Management launched two guaranteed multi-advisor funds, GNI European Funds 1 and 2, in August and September. The two funds have a combined value of $48 million. The funds provide investors with exposure to both equity derivatives and commodity futures trading, and both finished the year at new peaks.

Old Mutual Securities

Old Mutual Securities (OMS) was launched in June 2000, following the combination of Greig Middleton's Corporate and Institutional and Albert E Sharp Securities businesses into one entity. Since then the group has developed a market making capability covering more than 300 stocks and gained 30 new corporate broking clients.

Revenues have increased strongly to £19m from £9m in 1999 reflecting the increased level of activity and product diversity. OMS benefited from high levels of activity in the early part of the year, particularly in the IT sector, however, this reduced in the second half of the year, when more traditional sectors came back into favour. Market-making in stocks started in February 2000 and have made a strong start.

Prospects remain good as our product range widens to cover all sectors that exhibit growth potential in the small and mid-cap areas.

Old Mutual Specialised Finance (OMSFIN)

OMSFIN has grown rapidly this year, with after tax earnings of £6 million in 2000 from its corporate lending, securities lending and structured product activities. The company is well positioned to continue this trend through the growth of existing operations in South Africa and introduction of new products.

BANKING

Banking profit of £327 million increased 56% from £210 million in 1999, principally reflecting the impact of special provisions and property writedowns of £94 million made by our 53% subsidiary Nedcor last year.

Financial Performance

Nedcor's contribution to Group's operating profit before minority interests was £337 million, up 57% from the £215 million in 1999. In spite of the continuing high interest rate environment in South Africa, which continued to slow business volumes, Nedcor reported a strong result this year generating a 26% increase in headline earnings from R2,406 million to R3,027 million and an increase of 24% in earnings per share. Nedcor also reported R98 million in exceptional charges relating to branch property write downs and leasehold premises, which have been included in the Group's operating profit for reporting under UK GAAP.

Net interest income was reported as showing an increase of 9% in the year in spite of a decline in interest margin from 3.64% to 3.46%. The margin was negatively affected by the reduced endowment effects of lower interest rates on free capital and the redeployment of funds into strategic investments. Non-interest revenue continued to grow strongly, increasing by 23% and reflecting a strong performance overall and excellent foreign exchange income. Nedcor's cost to income ratio fell from 51.7% to 50.0% as a result of continued successful cost management, and debt provision levels stabilised this year, the charge increasing by 5% year on year after allowing for the higher provisioning levels within the acquired FBC Fidelity Bank.

Nedcor exchanged its 25% interest in Dimension Data International for shares in Dimension Data Holdings plc during the fourth quarter, generating an exceptional profit of R3.7 billion (£356 million). The increase in shareholders' funds caused by the exceptional profit has resulted in the reported overall return on equity, on a South African GAAP basis, reducing 1.3% to 24.0%; however, excluding technology investments, the adjusted return on equity for the banking operations is 25.3%, up from 24% last year.

The results of Gerrard & King's operating profit of £2 million are included in this year's banking results. However, following the announcement of its merger into GNI in November, Gerrard & King has been winding down its banking book. The results of its collateral management division, which moved into GNI in 2000, will be reported as part of other financial services results in future.

Business development

Nedcor developed three non-linear strategies during the year, firstly by forming alliances and partnerships with best-of-breed companies in their fields to develop the retail banking network. In August, Nedcor acquired the business of FBC Fidelity Bank Limited which has been merged into Peoples Bank Limited and is now one of the largest financial institutions serving the previously under-banked population of South Africa.

Secondly, Nedcor formed important alliances with: Capital One to utilise its unique data mining capabilities; Old Mutual's Group Schemes to offer assurance and savings products; furniture retailer J D Group and Pick 'n Pay Financial Services to extend the product range and outlets; Imperial Holdings through the purchase of 50.1% of Imperial Bank, a specialist asset-based finance house; and Virgin Active, through the acquisition of a 30% private equity interest in the Virgin Active South African health and fitness business.

Secondly Nedcor's technology and outsourcing division moved towards commercialisation as a standalone entity. This will enable it to utilise capacity more widely and create the potential for the outsourcing of IT and processing needs of other financial institutions.

Thirdly Nedcor has also seen exciting developments in investments in strategic IT companies and other business enhancing partnerships. This led to further investment in Dimension Data and new investments in The Internet Solution, Aplitec, IQ Business Group, Nihilent Technologies and Miraculum, all new technology businesses that are expected to add value to the traditional business in future.

Moving forward

The improvement in the economic climate should have a positive effect into the future. Cost control and increased efficiencies, benefits from alliances and a continued drive to improve client service should lead to market share growth. These factors, together with anticipated growth from Nedcor's strategic investments, should contribute to continuing positive results.

GENERAL INSURANCE

Financial performance

Following a difficult first half due to weather-related losses, our 51% subsidiary, Mutual & Federal, recovered well in the second half as rating increases were passed into the marketplace and claims incidence and severity improved. The group's underwriting result for the year was marginally positive, compared to a £3 million loss reported at the half year.

Premium income rose 18% from £258 million to £305 million, largely from the inclusion of the results of the acquired CGU Holdings from October, along with the benefit of rate hardening in the market. Expense management remains an important feature of the group's performance, with levels being contained well this year. The fall in operating profit from £59 million to £44 million principally reflects the impact of currency effects and a special dividend, which have reduced the asset levels upon which long term investment returns are earned.

Corporate development

Continuing with its strategy of consolidation in general insurance, in October, Mutual & Federal acquired CGU Holdings for R 1,206 million (£106 million). The results of CGU Holdings were incorporated in its results from this date. Also, as part of its capital restructuring plans, in November, Mutual & Federal announced a special dividend to shareholders of £71 million. Notwithstanding this, the Group's capital position remains very strong.

FINANCIAL REVIEW

This report highlights some of the key features of this year's financial statements and describes how the significant changes that took place during 2000 affected the Group from a financial perspective.

Operating profit presentation

In accordance with common UK industry practice, in order to facilitate the evaluation of performance, we have shown operating profit and operating earnings per share before the impact of short term fluctuations in investment return, non-operating items, and goodwill amortisation.

Acquisitions

The Gerrard Group acquisition was funded by £98 million of loan notes and £431 million of internal resources. The $2.9 billion UAM acquisition was principally debt financed through a $1,600m revolving credit facility with a syndicate of banks, issuances of $400 million of Medium Term Notes, and other internal resources. Pilgrim Baxter's initial re-equitisation costs (see below) were funded by placing £153 million worth of new ordinary shares, with future payments expected to be met out of internal resources.

UAM operated with 41 separately governed affiliates where the effective economic interest to UAM was restricted to a share of revenues. Since acquisition we have taken steps to realign the interest of the Group with those of the affiliates by a process of re-equitisation which moves our relationship with Pilgrim Baxter and the OMAM(US) affiliates from revenue sharing to an earnings-linked business model. The transaction with Pilgrim Baxter was in three parts: initial payments of $110 million and $111 million, for 52% of revenues previously owned by management: a further payment of $420 million, (payable at the option of the Group and to be exercised by the end of the third quarter) for the remaining 48%, and a grant of $170 million in phantom stock. Consideration other than the initial payments, together with $129 million relating to OMAM(US) affiliates, is structured to be paid over the next seven years, and has been capitalised into goodwill in accordance with UK GAAP. Goodwill is being amortised over 20 years.

Other shareholders' income/(expenses)

These items principally represent long term investment return of £17 million earned on shareholders' funds, offset by financing costs of £32 million and other shareholder costs of £47 million, which include business development costs of £6 million.

Taxation

The Group's effective tax rate (based on the tax charge as a proportion of profits on ordinary activities before tax) of 18% is 12% lower than the UK standard corporation tax rate. This is primarily due to the positive effects of tax-exempt income earned by the Group's life assurance and banking businesses in South Africa and the impact of brought forward tax losses in our South African life businesses, partially offset by STC payments on distributions.

Non-operating items

Following the restructuring of Nedcor's interests in the Dimension Data Group, the Group realised a gain of £356 million. This has been recorded in the profit and loss account as a non-operating item.

Earnings Per Share

The Group's operating earnings per share based on a long term investment return before goodwill amortisation has increased by 38% from 12.3p in 1999 to 17.0p. This increase principally reflects the strong performance by our life and banking businesses and the one-off charges relating to pensions mis-selling (£50 million), special provisions and property write-downs (£94 million) recorded in 1999.

Earnings per share is calculated using an average number of shares in issue during the year of 3,373 million (1999 number of shares: 3,127 million). These shares exclude 88 million unvested shares held in employee share trusts.

Dividends

The Board recommends a final dividend of 3.1p per share, which, if approved at the AGM, will bring the total dividend per share for the year to 4.7p. This represents an 18% increase over pro forma 1999. Dividend cover (based on smoothed operating profits) at this level is 3.6 times (1999 3.1 times).

Currency and Markets

The principal currency affecting the Group's operations is the Rand. Depreciation in that currency against Sterling over the reporting period was 14%, with the exchange rate finishing at R11.3/£ at the end of the year, compared to R9.9/£ at the beginning of the year.

Our current policyholder charging and asset management fee earning arrangements determine that the Group's earnings are dependent to a significant degree upon asset values, which are themselves determined by world stock markets. The results benefited from the high asset values generated by a strong 1999 South African equity market, which saw the JSE All Share Index rise by 57% during that year. Since the acquisition of UAM, the Group's earnings have also been affected by movements in US equity markets, particularly those of Pilgrim Baxter, which are closely related to the Nasdaq index.

Embedded Value

Embedded value is the sum of the shareholders' net assets adjusted to reflect listed subsidiaries at market value, and the present value of the future after tax profit from the life business written and in-force at the valuation date, adjusted for the cost of holding appropriate solvency capital. The change in the embedded value over the period, adjusted for any capital raised and dividend provided for, gives an economic measure of performance.

Embedded value is not an appraisal value, so does not include any value for policies not written at the reporting date. The methodology also does not record any additional value for linked "investment type" contracts where profits are recorded under asset management, nor any additional "market" value not reflected in the books for non listed subsidiaries.

Embedded value increased 3% during the year from £5,414 million to £5,553 million as positive Rand growth was offset by adverse currency movements. The main contributors to the Rand growth of 17% were the strong growth in Nedcor's share price, strong new business value, and the effect of assumption changes which crystallised positive experience variances.

Long Term Investment Return

The long-term rate of return used is 14% (1999 14%) which is based upon actual historical investment returns earned on our South African portfolio. This rate is applied to a rolling average of investible assets adjusted for shareholder cashflows. The return has been translated into Sterling, with other profit and loss account items using the average exchange rate of R10.5/£ for this year.

Capital

During the year, there were some important changes to the Group's capital. In July we gained High Court approval to cancel an amount equal to £500m from the share premium account and to increase distributable reserves of Old Mutual plc, and in October, Mutual & Federal redistributed capital through payment of a R750 million special dividend (£36 million Group share). In order to fund the $110 million initial Pilgrim Baxter re-equitisation payment, the Group placed 105 million new ordinary shares, simultaneously with 25 million existing issued ordinary shares, representing shares held in connection with satisfying claims and errors in accordance with the Scheme of Demutualisation.

Solvency

The Group's life assurance and asset management businesses all operate within regulatory environments, which set minimum levels of required capital for the purposes of policyholder and customer protection. All the Group's main operating businesses have solvency levels comfortably in excess of the local regulatory minimums. In November 2000 the Group received an A2 Moody's rating while OMLAC(SA), our principal South African life company, received an Aa3 rating for domestic liabilities. Mutual & Federal enjoys an AAA rating and Nedcor had a tier 1 capital ratio of 11.5% at 31 December 2000 (1999 – 10.5%).

Gearing

In order to fund acquisitions this year and bring the Group toward a more balanced capital structure, the Group raised £850 million of debt finance, which at 31 December 2000 represented a gearing proportion (defined as debt over capital plus debt) of 25%.

The financial information in this document does not constitute the Company's statutory accounts for the years ended 31 December 2000 but is derived from those accounts. Statutory accounts for 1999 have been delivered to the Registrar of Companies, and those for 2000 will be delivered following the Company's annual general meeting. The auditors have reported on those accounts: their reports were unqualified and did not contain statements under section 237(2) or (3) of the Companies Act 1985.

Summary Consolidated Profit and Loss Account

			£m		Rm	
	Existing Operations	Acquired operations	**Year to 31 Dec 2000 Total**	Year to 31 Dec 1999 Total	**Year to 31 Dec 2000 Total**	Year to 31 Dec 1999 Total
Operating profit						
Life assurance						
Continuing operations	478		**478**	426	**5,029**	4,200
Discontinued operations	-	-	**-**	(50)	-	(493)
Banking	325	2	**327**	210	**3,440**	2,072
Asset management	67	57	**124**	48	**1,305**	473
General insurance business	44	-	**44**	59	**463**	582
Other shareholders' income / (expenses)	(36)	(26)	**(62)**	(32)	**(652)**	(316)
Operating profit based on a long term investment return (Note 1)	878	33	**911**	661	**9,585**	6,518
Goodwill amortisation			**(54)**	(5)	**(568)**	(49)
Short term fluctuations in investment returns			**(180)**	778	**(1,894)**	7,670
Non-operating items			**356**	54	**3,746**	532
Profit on ordinary activities before tax			**1,033**	1,488	**10,869**	14,671
Tax on profit on ordinary activities			**(186)**	(165)	**(1,958)**	(1,627)
Profit on ordinary activities after tax			**847**	1,323	**8,911**	13,044
Minority interests			**(341)**	(257)	**(3,588)**	(2,534)
Profit on ordinary activities after tax and minority interests			**506**	1,066	**5,323**	10,510
Dividends paid and proposed			**(163)**	(69)	**(1,714)**	(680)
Retained profit for the financial year			**343**	997	**3,609**	9,830

Note 1
Operating profit based on a long term investment return is stated before goodwill amortisation, short term fluctuations in investment return, non-operating items, taxation and minority interests. All references to 'operating profit' within the Chairman's Statement, Business and Financial Review refer to this definition.

		p		c
Earnings per share				
Basic earnings per share	**15.0**	34.1	**157.8**	336.2
Diluted earnings per share	**14.9**	33.9	**156.6**	334.2
Operating earnings per share (based on a long term investment return before amortisation of goodwill)	**17.0**	12.3	**179.4**	121.4
Dividend per share	**4.7**	2.0	**49.5**	19.7
Weighted average number of shares- millions	**3,373**	3,127	**3,373**	3,127

Exchange Rates

	US$/£	**US$/£**	**R/£**	**R/£**
	Year to 31 Dec 2000	Year to 31 Dec 1999	**Year to 31 Dec 2000**	Year to 31 Dec 1999
Profit and Loss Account (average rate)	**1.5159**	1.6153	**10.5213**	9.8588
Balance Sheet (closing rate)	**1.4937**	1.6176	**11.3148**	9.9364

Gross premiums written

	£m			Rm		
	South Africa	Rest of world	**Total**	South Africa	Rest of world	**Total**
Year to 31 December 2000						
Single	1,393	219	**1,612**	14,656	2,304	**16,960**
Recurring	1,187	166	**1,353**	12,489	1,747	**14,236**
	2,580	385	**2,965**	27,145	4,051	**31,196**
Year to 31 December 1999						
Single	1,650	208	**1,858**	16,269	2,050	**18,319**
Recurring	1,279	197	**1,476**	12,611	1,941	**14,552**
	2,929	405	**3,334**	28,880	3,991	**32,871**

New business premiums written

	£m			Rm		
	South Africa	Rest of world	**Total**	South Africa	Rest of world	**Total**
Year to 31 December 2000						
Statutory new business premiums						
Single	1,393	219	**1,612**	14,656	2,304	**16,960**
Recurring	227	21	**248**	2,388	221	**2,609**
	1,620	240	**1,860**	17,044	2,525	**19,569**
Annual premium equivalent	366	43	**409**	3,854	451	**4,305**
Year to 31 December 1999						
Statutory new business premiums – continuing operations						
Single	1,650	202	**1,852**	16,269	1,991	**18,260**
Recurring	204	36	**240**	2,011	355	**2,366**
	1,854	238	**2092**	18,280	2,346	**20,626**
Annual premium equivalent	369	56	**425**	3,637	555	**4,192**

Note

I) Annual premium equivalent is defined as one tenth of single premiums plus recurring premiums.

Analysis of life operating profit

	South Africa £m	Rest of world £m	Total £m	South Africa Rm	Rest of world Rm	Total Rm
Year to 31 December 2000						
Individual business	165	4	**169**	1,736	42	**1,778**
Group business	85	3	**88**	894	32	**926**
Continuing operations	250	7	**257**	2,630	74	**2,704**
Discontinued operations	-	-	**-**	-	-	**-**
Life assurance technical result	250	7	**257**	2,630	74	**2,704**
Long term investment return	209	6	**215**	2,199	63	**2,262**
Intragroup interest	6	-	**6**	63	-	63
Life assurance operating profit	465	13	**478**	4,892	137	**5,029**
Year to 31 December 1999						
Individual business	168	2	**170**	1,656	20	**1,676**
Group business	67	2	**69**	661	19	**680**
Continuing operations	235	4	**239**	2,317	39	**2,356**
Discontinued operations	-	(50)	**(50)**	-	(493)	**(493)**
Life assurance technical result	235	(46)	**189**	2,317	(454)	**1,863**
Long term investment return	167	20	**187**	1,647	197	**1,844**
Life assurance operating profit	402	(26)	**376**	3,964	(257)	**3,707**

Analysis of banking operating profit

	South Africa £m	Rest of world £m	Total £m	South Africa Rm	Rest of world Rm	Total Rm
Year to 31 December 2000						
Net interest income	421	43	**464**	4,430	452	**4,882**
Non-interest revenue	382	25	**407**	4,019	263	**4,282**
Total operating income	803	68	**871**	8,449	715	**9,164**
Specific and general provisions	(90)	(4)	**(94)**	(947)	(42)	**(989)**
Net income	713	64	**777**	7,502	673	**8,175**
Operating expenses	(452)	(22)	**(474)**	(4,757)	(231)	**(4,988)**
Operating profit before share of associated undertakings' operating profit	261	42	**303**	2,745	442	**3,187**
Share of associated undertakings' profit	24	-	**24**	253	-	**253**
Banking operating profit on ordinary activities before tax	285	42	**327**	2,998	442	**3,440**
Year to 31 December 1999						
Net interest income	422	22	**444**	4,162	216	**4,378**
Non-interest revenue	317	13	**330**	3,125	129	**3,254**
Total operating income	739	35	**774**	7,287	345	**7,632**
Specific and general provisions	(162)	(1)	**(163)**	(1,597)	(10)	**(1,607)**
Net income	577	34	**611**	5,690	335	**6,025**
Operating expenses	(400)	(14)	**(414)**	(3,943)	(138)	**(4,081)**
Operating profit before share of associated undertakings' operating profit	177	20	**197**	1,747	197	**1,944**
Share of associated undertakings' profit	13	-	**13**	128	-	**128**
Banking operating profit on ordinary activities before tax	190	20	**210**	1,875	197	**2,072**

Analysis of asset management operating profit

	£m			Rm		
	Existing operations	Acquired operations	**Total**	Existing operations	Acquired operations	**Total**
Year to 31 December 2000						
Operating Income	251	245	**496**	2,641	2,578	**5,219**
Asset management worldwide	53	44	**97**	557	463	**1,020**
Private client UK – gross profit	7	19	**26**	74	200	**274**
– integration costs	-	(14)	**(14)**	-	(147)	**(147)**
Other financial services	7	8	**15**	74	84	**158**
Asset management operating profit	67	57	**124**	705	600	**1,305**
Year to 31 December 1999						
Operating Income	192	-	**192**	2,020	-	**2,020**
Asset management worldwide	45	-	**45**	444	-	**444**
Private client UK	3	-	**3**	29	-	**29**
Asset management operating profit	48	-	**48**	473	-	**473**

Operating income comprises principally gross fees and commissions earned from asset management activities.

Analysis of general insurance result by class of business

	£m			Rm		
	Premiums written net of reinsurance	Claims incurred net of reinsurance	Underwriting result	Premiums written net of reinsurance	Claims incurred net of reinsurance	Underwriting result
Year to 31 December 2000						
Motor	141	113	(3)	1,484	1,189	(32)
Fire	131	96	-	1,378	1,010	-
Accident	11	5	2	116	53	21
Other	22	12	1	231	126	11
	305	226	-	3,209	2,378	-
Long term investment return	-	-	44	-	-	463
Operating profit	**305**	**226**	**44**	**3,209**	**2,378**	**463**
Analysed between:						
Existing operations	267	198	44	2,809	2,062	463
Acquired operations	38	28	-	400	295	-
	305	**226**	**44**	**3,209**	**2,357**	**463**
Year to 31 December 1999						
Motor	123	98	(1)	1,213	967	(7)
Fire	40	70	1	394	690	8
Accident	86	26	3	848	256	30
Other	9	5	-	89	49	(1)
	258	199	**3**	2,544	1,962	**30**
Long term investment return	-	-	**56**	-	-	**552**
Operating profit	**258**	**199**	**59**	**2,544**	**1,962**	**582**

Funds under management	South Africa £m	Rest of world £m	Total £m	South Africa Rm	Rest of world Rm	Total Rm
31 December 2000						
Investments including assets held to cover linked liabilities	14,913	6,693	**21,606**	168,739	75,730	**244,469**
Unit trusts						
Asset management worldwide						
Old Mutual Asset Managers	1,266	779	**2,045**	14,325	8,814	**23,139**
Private client UK	-	1,252	**1,252**	-	14,166	**14,166**
Other financial services	-	200	**200**	-	2,263	**2,263**
	1,266	2,231	**3,497**	14,325	25,243	**39,568**
Third party						
Asset management worldwide						
Old Mutual Asset Managers	4,101	379	**4,480**	46,402	4,288	**50,690**
United Asset Management	-	119,111	**119,111**	-	1,347,715	**1,347,715**
	4,101	119,490	**123,591**	46,402	1,352,003	**1,398,405**
Private client UK	-	19,619	**19,619**	-	221,985	**221,985**
Other financial services	15	420	**435**	170	4,752	**4,922**
	4,116	139,529	**143,645**	46,572	1,578,740	**1,625,312**
Total funds under management	20,295	148,453	**168,748**	229,634	1,679,713	**1,909,349**
31 December 1999						
Investments including assets held to cover linked liabilities	16,998	6,999	**23,997**	168,897	69,545	**238,442**
Unit trusts						
Asset management worldwide	1,941	745	**2,686**	19,287	7,403	**26,690**
Private client UK	-	1,111	**1,111**	-	11,039	**11,039**
Nedcor Investment Bank Asset Managers	757	278	**1,035**	7,522	2,762	**10,284**
	2,698	2,134	**4,832**	26,809	21,204	**48,013**
Third party						
Asset management worldwide	4,697	399	**5,096**	46,668	3,965	**50,633**
Private client UK	-	8,538	**8,538**	-	84,837	**84,837**
Nedcor Investment Bank Asset Managers	2,360	35	**2,395**	23,450	348	**23,798**
Other financial services	11	-	**11**	113	-	**113**
	7,068	8,972	**16,040**	70,231	89,150	**159,381**
Total funds under management	26,764	18,105	**44,869**	265,937	179,899	**445,836**

Note:

Following the sale of Nedcor Investment Bank Asset Managers to Franklin Templeton in July, the associated funds under management have been excluded at 31 December 2000.

Taxation on profit on ordinary activities	£m		Rm	
	Year to 31 Dec 2000	Year to 31 Dec 1999	**Year to 31 Dec 2000**	Year to 31 Dec 1999
United Kingdom Corporation tax	**19**	12	**200**	118
Overseas tax	**180**	95	**1,893**	937
Secondary tax on companies	**32**	-	**338**	-
Deferred tax	**(76)**	58	**(800)**	572
Prior period adjustment	**31**	-	**326**	-
Tax on profit on ordinary activities	**186**	165	**1,957**	1,627

Reconciliation of tax charge to UK rate	£m		Rm	
Tax at UK rate of 30.0 per cent. (1999: 30.25 per cent.) on profit on ordinary activities before tax	**310**	450	**3,261**	4,436
Untaxed income (principally tax exempt investment return)	**(204)**	(252)	**(2,146)**	(2,484)
Disallowable expenditure	**16**	(25)	**166**	(246)
Secondary tax on companies	**32**	-	**338**	-
Other	**32**	(8)	**338**	(79)
Tax charge	**186**	165	**1,957**	1,627

Reconciliation of profit on ordinary activities after tax and minority interests to operating earnings[1]	£m		Rm	
Profit on ordinary activities after tax and minority interests	**506**	1,066	**5,323**	10,510
Goodwill amortisation net of minority interests	**42**	5	**442**	49
Short term fluctuations in investment returns net of minority interest	**205**	(667)	**2,158**	(6,576)
Non-operating items net of taxation and minority interests	**(178)**	(19)	**(1,873)**	(187)
Operating earnings (based on a long term investment return)	**575**	385	**6,050**	3,796

Reconciliation of basic earnings per share to operating earnings per share[1]	£m		Rm	
Basic earnings per share	**15.0**	34.1	**157.8**	336.2
Goodwill amortisation net of minority interests	**1.2**	0.1	**13.1**	1.1
Short term fluctuations in investment returns net of minority interests	**6.1**	(21.3)	**64.0**	(210.0)
Non-operating items net of taxation and minority interests	**(5.3)**	(0.6)	**(55.5)**	(5.9)
Operating earnings per share (based on a long term investment return)	**17.0**	12.3	**179.4**	121.4

Operating earnings (based on a long term investment return) is stated before goodwill amortisation, short term fluctuations in investment return and non-operating items. The comparative operating earnings per share of 12.3 pence has been restated to exclude goodwill amortised in the year ended 31 December 1999.

Acquisitions

United Asset Management Corporation

On 5 October 2000, the Group acquired the net assets of United Asset Management Corporation for a cash consideration of £1,351 million. In December 2000, the Group restructured its revenue sharing interests in Pilgrim Baxter (PBA) and OMAM(US) affiliates to enable participation in the earnings of those firms. The fair value adjustments detailed below relate the reclassification of intangible assets to goodwill on consolidation, the recognition of a deferred taxation asset in respect of future tax benefits expected to arise from re-equitisation payments made to affiliates and intangible asset amortisation, and a revaluation of businesses required for resale.

The resultant goodwill of £1,795 million has been capitalised and is being amortised over its estimated useful life of twenty years. The Group has accounted for the purchase of the United Asset Management Corporation using acquisition accounting principles, whereby its results are included in the consolidation profit and loss account from the date of acquisition.

			£m
	Book value on acquisition	Fair value adjustments	**Fair value to Group**
Intangible assets	534	(534)	**-**
Investments	32	**-**	**32**
Debtors	103	**-**	**103**
Tangible fixed assets	18	**-**	**18**
Prepayments and accrued income	7	**-**	**7**
Cash at bank and in hand	133	**-**	**133**
Other assets	10	**-**	**10**
Deferred tax asset	30	194	**224**
Subordinated liabilities	(34)	-	**(34)**
Creditors	(246)	-	**(246)**
Amounts owed to credit institutions	(287)	-	**(287)**
Net assets of retained businesses	300	(340)	**(40)**
Net assets of businesses acquired for resale	46	198	244
Net assets of the acquired business	346	(142)	**204**
Net consideration paid:			
- Original consideration			1,351
- Purchase of revenue shares			
PBA initial payments			160
PBA option			285
PBA phantom stock plan			116
OMAM(US) affiliates			87
Total net consideration			**1,999**
Goodwill arising			**1,795**

A reconciliation of goodwill from 31 December 1999 to 31 December 2000, is presented below.

	£m
Balance as at 31 December 1999	164
Goodwill arising on the UAM acquisition	1,795
Goodwill arising on the Gerrard acquisition	357
Other	17
Goodwill amortisation	(54)
Balance as at 31 December 2000	**2,279**

Consolidated Balance Sheet

Analysis of total assets	£m At 31 Dec 2000	£m At 31 Dec 1999	Rm At 31 Dec 2000	Rm At 31 Dec 1999
Intangible assets				
Goodwill	**2,279**	164	**25,786**	1,629
Insurance and other assets				
Land and buildings	**831**	914	**9,403**	9,081
Other financial investments	**15,173**	17,167	**171,680**	170,577
	16,004	18,081	**181,083**	179,658
Assets held to cover linked liabilities	**5,602**	5,916	**63,386**	58,784
	21,606	23,997	**244,469**	238,442
Reinsurers' share of technical provisions				
Long term business provision	**118**	140	**1,335**	1,391
Claims outstanding	**19**	16	**215**	159
Provision for unearned premiums	**7**	5	**79**	**50**
	144	**161**	**1,629**	**1,600**
Debtors	**3,890**	524	**44,014**	5,207
Other assets	**530**	133	**5,997**	1,322
Cash at bank and in hand	**458**	443	**5,182**	4,402
Prepayments and accrued income	**232**	317	**2,625**	3,150
	5,110	1,417	**57,818**	14,081
Total insurance and other assets	**26,860**	25,575	**303,916**	254,123
Banking assets				
Cash and balances at central banks	**1,138**	760	**12,876**	7,552
Treasury bills and other eligible bills	**657**	744	**7,433**	7,393
Loans and advances to banks	**1,218**	613	**13,781**	6,091
Loans and advances to customers	**11,404**	9,704	**129,033**	96,423
Debt securities	**924**	629	**10,455**	6,250
Equity securities	**624**	145	**7,061**	1,441
Interest in associated undertakings	**207**	179	**2,343**	1,779
Tangible fixed assets	**93**	98	**1,052**	974
Land and buildings	**102**	89	**1,154**	884
Other assets	**547**	88	**6,189**	874
Prepayments and accrued income	**373**	168	**4,220**	1,669
Total banking assets	**17,287**	13,217	**195,597**	131,330
Total assets	**46,426**	38,956	**525,299**	387,082

Consolidated Balance Sheet

Analysis of total capital and liabilities

	£m		Rm	
	At 31 Dec 2000	At 31 Dec 1999	**At 31 Dec 2000**	At 31 Dec 1999
Capital and reserves				
Called up share capital	**355**	344	**4,017**	3,418
Share premium account	**511**	868	**5,782**	8,625
Profit and loss account	**2,752**	2,301	**31,138**	22,864
Equity shareholders' funds	**3,618**	3,513	**40,937**	34,907
Minority interests	**1,013**	857	**11,458**	8,515
Subordinated liabilities	**39**	-	**442**	-
Insurance and other liabilities				
Technical provisions				
Long term business provision	**13,048**	14,767	**147,636**	146,731
Claims outstanding	**323**	319	**3,654**	3,170
Provision for unearned premiums	**62**	43	**702**	427
	13,433	15,129	**151,992**	150,328
Technical provisions for linked liabilities	**5,602**	5,916	**63,385**	58,784
Provisions for other risks and charges	**220**	317	**2,490**	3,150
Creditors	**5,646**	997	**63,884**	9,907
Amounts owed to credit institutions	**1,224**	96	**13,850**	953
Accruals and deferred income	**230**	43	**2,602**	427
Total insurance and other liabilities	**26,355**	22,498	**298,203**	223,549
Banking liabilities				
Deposits by banks	**1,873**	798	**21,193**	7,929
Customer accounts	**10,737**	9,343	**121,487**	92,836
Debt securities in issue	**1,417**	1,194	**16,033**	11,864
Other liabilities	**1,195**	609	**13,521**	6,048
Provisions for liabilities and charges	**114**	76	**1,290**	755
Subordinated liabilities	**65**	68	**735**	679
Total banking liabilities	**15,401**	12,088	**174,259**	120,111
Total liabilities	**46,426**	38,956	**525,299**	387,082

Movement in Consolidated Equity Shareholders' Funds

	£m		Rm	
	Year to 31 Dec 2000	Year to 31 Dec 1999	**31 Dec 2000**	Year to 31 Dec 1999
Profit for the financial year	**506**	1,066	**5,323**	10,510
Foreign exchange movements	**(415)**	(35)	**465**	241
Total recognised gains and losses for the year	**91**	1,031	**5,788**	10,751
Dividends paid and proposed	**(163)**	(69)	**(1,714)**	(680)
	(72)	962	**4,074**	10,071
Issue of new capital in respect of re-equitisation of Pilgrim Baxter & Associates and other affiliates	**153**	-	**1,691**	-
Proceeds from sale of shares previously held to satisfy claims and errors on demutualisation	**24**	-	**265**	-
Issue of new capital on policyholder self-investment	-	404	-	3,954
Issue of new capital on listing	-	559	-	5,355
Net addition to equity shareholders' funds	**105**	1,925	**6,030**	19,380
Equity shareholders' funds at the beginning of the year	**3,513**	1,588	**34,907**	15,527
Equity shareholders' funds at the end of the year	**3,618**	3,513	**40,937**	34,907

Consolidated Cash Flow Statement

	£m		Rm.	
	Year to 31 Dec 2000 Total	Year to 31 Dec 1999 Total	**Year to 31 Dec 2000 Total**	Year to 31 Dec 1999 Total
Operating activities				
Net cash inflow from insurance operating activities	**128**	495	**1,346**	4,880
Net cash inflow from banking operating activities	**847**	257	**8,913**	2,534
Net cash inflow before financing activities	**975**	752	**10,259**	7,414
Net cash outflow from returns on investments and servicing of finance	**(72)**	(124)	**(753)**	(1,223)
Total taxation paid	**(156)**	(70)	**(1,642)**	(690)
Net cash outflow from capital expenditure and financial investment	**(295)**	(84)	**(3,104)**	(828)
Net cash (outflow)/inflow from acquisitions and disposals	**(1,718)**	66	**(18.076)**	650
Equity dividend paid	**(122)**	-	**(1,284)**	-
Net cash flow before financing activities	**(1,388)**	540	**(14,600)**	5,323
Net cash inflow from financing activities	**1,027**	547	**10,801**	5,391
Net cash flow of the Group excluding long term business	**(361)**	1,087	**(3,799)**	10,714
Cash flows relating to insurance activities were invested as follows:				
Increase in cash holdings	**(142)**	122	**(1,494)**	1,202
Net portfolio investments	**(1,008)**	732	**(10,605)**	7,215
	(866)	854	**(9,111)**	8,417
Cash flows relating to banking activities were invested as follows:				
Increase in cash and balances at central banks	**505**	233	**5,312**	2,297
Net cash flow of the Group excluding long term business	**(361)**	1,087	**(3,799)**	10,714

The cash flows presented in this statement relate to shareholder and general business transactions only.

Embedded Value information

	£m	£m	Rm	Rm
	At 31 Dec 2000	At 31 Dec 1999	**At 31 Dec 2000**	At 31 Dec 1999
Adjusted Net Worth	**4,730**	**4,608**	**53,517**	**45,791**
Equity Shareholders' funds	3,618	3,513	40,937	34,907
Excess of market value of listed subsidiaries over their net asset value	1,132	1,114	12,805	11,069
Adjustment to include OMI Life subsidiaries on a statutory solvency basis	(20)	(19)	(225)	(185)
Value of in-force business	823	806	9,314	8,003
Value of in-force business before cost of solvency capital	886	884	10,028	8,781
Cost of solvency capital	(63)	(78)	(714)	(778)
Embedded Value	**5,553**	**5,414**	**62,831**	**53,794**

Value of in force analysis

South Africa	**706**	**687**	**7,988**	**6,830**
Individual Business	451	448	5,098	4,455
Group Business	255	239	2,890	2,375
Rest of World	117	119	1,326	1,173
Value in-force business	**823**	**806**	**9,314**	**8,003**

Embedded Value Profits

	£m	£m	Rm	Rm
	Year to 31 Dec 2000	Year to 31 Dec 1999	Year to 31 Dec 2000	Year to 31 Dec 1999
Embedded Value at end of year	5,553	5,414	62,831	53,794
Embedded Value at beginning of year	5,414	3,086	53,794	30,174
Increase in embedded value	139	2,328	9,037	23,620
Less capital raised	(153)	(963)	(1,691)	(9,309)
Proceeds from sale of shares previously held to satisfy claims and errors on demutualisation	(24)		(265)	
Self investment transaction	-	*(404)*	-	*(3,954)*
New capital raised	*(153)*	*(559)*	*(1,691)*	*(5,355)*
Plus dividends proposed	163	69	1,714	680
Embedded value profits	**125**	**1,434**	**8,795**	**14,991**
Profits from new business	74	75	782	741
Point of sale	*68*	*69*	*718*	*678*
Expected return to end of year	*6*	*6*	*64*	*63*
Expected return	144	160	1,514	1,581
Experience variances	28	13	289	129
Experience assumption changes	72		757	
Profits before investment and exceptional items	**318**	**248**	**3,342**	**2,451**
Investment variances	(14)	99	(143)	972
Investment assumption changes	10		101	
Investment return on adjusted net worth	484	1,331	5,092	13,118
Exceptional items	-	(185)	-	(1,826)
Impact of 2000 SA tax change	-	(121)	-	(1,190)
Sale of UK life operation	-	(12)	-	(118)
Additional pensions mis-selling provisions	-	(52)	-	(518)
Exchange rate movements	(673)	(59)	403	276
Embedded value profits	**125**	**1,434**	**8,795**	**14,991**

Value of new business

	12 months to 31 Dec 2000					12 months to 31 Dec 2000			
	Recurring Premiums £m	Single Premiums £m	APE £m	VNB £m	Margin	Recurring Premiums Rm	Single Premiums Rm	APE Rm	VNB Rm
South Africa	179	1,097	289	67	23%	1,886	11,542	3,040	708
Individual business	*131*	*805*	*212*	*38*	*18%*	*1,384*	*8,465*	*2,230*	*399*
Group business	*48*	*292*	*77*	*29*	*38%*	*502*	*3,077*	*810*	*309*
Rest of World	20	211	41	5	13%	212	2,216	434	56
Total (pro forma)	**199**	**1,308**	**330**	**72**	**22%**	**2,098**	**13,758**	**3,474**	**764**
SA Group (free shares)*	-	78	8	2	22%	-	818	82	18
TOTAL	**199**	**1,386**	**338**	**74**	**22%**	**2,098**	**14,576**	**3,556**	**782**

	12 months to 31 Dec 1999					12 months to 31 Dec 1999			
	Recurring Premiums £m	Single Premims £m	APE £m	VNB £m	Margin	Recurring Premiums Rm	Single Premiums Rm	APE Rm	VNB Rm
South Africa	162	1,043	266	55	21%	1,597	10,280	2,625	546
Individual business (new tax basis)	*141*	*697*	*211*	*28*	*13%*	*1,390*	*6,873*	*2,077*	*277*
Group business (excl. free shares)	*21*	*346*	*55*	*27*	*49%*	*207*	*3,407*	*548*	*269*
Rest of World	36	172	53	7	13%	355	1,696	525	70
Total (pro forma – new tax basis)	**198**	**1,215**	**319**	**62**	**20%**	**1,952**	**11,976**	**3,150**	**616**
SA Individual (tax change)	-	-	-	8	-	-	-	-	73
SA Group (free shares)*	-	175	18	5	30%	-	1,727	172	52
TOTAL (old tax basis)	**198**	**1,390**	**337**	**75**	**22%**	**1,952**	**13,703**	**3,322**	**741**

* Proceeds from free shares issued to retirement funds on demutualisation, and re-invested with Old Mutual.

Assumptions

- The pre-tax investment and economic assumptions used for South African business were as follows:

South Africa	31 Dec 2000	31 Dec 1999
Fixed Interest Return	13.0%	14.0%
Equity & Property Return	16.0%	17.0%
Inflation	9.0%	10.0%
Risk Discount Rate	17.0%	18.0%

- Rates of future bonuses have been set at levels consistent with the investment return assumptions.

- For the in-force business, projected company taxation is based on the current tax basis that applies to South African life assurers, and includes full allowance for secondary tax on companies that may be payable in South Africa. No account has been taken of possible capital gains tax that may be payable in South Africa in future.

- The assumed future mortality, morbidity and voluntary discontinuance rates have been based as far as possible on analyses of recent operating experience. Allowance has been made where appropriate for the effect of expected AIDS-related claims.

- The management expenses attributable to life assurance business have been analysed between expenses relating to the acquisition of new business and the maintenance of business in force. Assumed future expenses were based on levels experienced up to 31 December 2000. The future expenses attributable to life assurance business do not include group holding company expenses.

- Future investment expenses were based on the current scales of fees payable by the life assurance companies to the asset management subsidiaries. To the extent that these fees include profit margins for the asset management subsidiaries, these margins have not been included in the value of in-force business or the value of new business.

- The effect of increases in premiums over the period for policies in-force as at 31 December 2000 and 31 December 1999 has been included in the value of in-force business only where such increases are associated with indexation arrangements. Other increases in premiums of existing policies are included in the value of new business.

- Experience assumptions have been changed to reflect revised expectations of future experience and to include certain margins not previously valued. In particular, Group Schemes mortality assumptions were revised, Employee Benefits expense and retention assumptions were revised, and some sources of Individual Life profit not previously valued have now been valued.

- Conversions between Rands and Sterling were carried out at the following exchange rates:

Exchange rates	**Rand / Sterling**
At 31 Dec 2000	11.3148
At 31 December 1999	9.9364
12 months to 31 December 2000 (average)	10.5213
12 months to 31 December 1999 (average)	9.8588