



**OLD MUTUAL** | plc

## **Interim Results 2004**

---

**10<sup>th</sup> August 2004**

**Johannesburg & London**

---

**Jim Sutcliffe**

Good Morning Ladies and Gentlemen. And welcome to Old Mutual's presentation of our 2004 Interim Results. As usual, and as you know, we are holding this event with a satellite link between London and Johannesburg and we are also webcasting live. Here in Johannesburg to support me I have Tom Boardman, Chief Executive of Nedcor, Roddy Sparks, Managing Director of our life company, Old Mutual South Africa, Bruce Campbell, Managing Director of Mutual and Federal, and I would like particularly to welcome Scott Powers who runs our US Asset Management business. It's great that Scott could come and join us here in Johannesburg. In London Julian Roberts is hosting the London part of this event. Can you hear us in London, Julian?

**Julian Roberts**

Jim we can hear you very clearly. I have got a very wet audience here Jim, because there has been a torrential thunder storm that has just passed by our offices. I suppose I should say I hope that our results will bring some sunshine, but it doesn't get much of a laugh here I am afraid. With me in the audience, we have got a full auditorium, are Mike Levett, our Group Chairman, and Guy Barker, who runs our US Life business.

**Jim Sutcliffe**

OK, thank you very much, Julian. And I can assure you that the weather in Jo'burg is absolutely delightful. Let me turn now to the business of our event, Old Mutual's results. The first part of 2004 was a strong period for Old Mutual. And our strategy has delivered very healthy results. Our South African insurance businesses have delivered very high ROEs and our international businesses are growing very strongly. In fact each of our businesses has played its part in delivering earnings per share up to 21% over the comparable period last year at 6.8 pence per share, or in Rands, up 13% to 82.7 cents per share. Importantly Nedcor is now stable. The rights issue has been completed. The management team has been filled out. Head count has been cut and interest rates and currency risks reduced. Nedcor has a three year recovery programme ahead of it. And there is much to do. But the business is now able to concentrate on the future rather than the past. Most of our US businesses have grown very strongly and we have delivered record funds flow. In the life business annual premium equivalent sales has reached \$251 million, and OMAM (US) the asset management business has delivered a sparkling \$5.3 billion of net cash flow which includes \$2 billion from ESEC lending, that's cash management money from...at a relatively low margin. As a result group assets under management are 12% higher than they were a year ago, at £130 billion. Our embedded value is a key marker for many of our shareholders. At 30<sup>th</sup> June embedded value per share was 114 pence, which is up 9% since year end. And in Rands it was 12.86 Rand. We have delivered a return on equity in the first half of the year at a rate of 19% per annum, well above the comparable 16% that we achieved in the first part of last year. I think this number is very creditable and in particular it places us in the front range of international financial services companies, and reflects favourably on the work we have put in over recent years. On the strength of this performance the directors are pleased to be able to

declare an increased dividend of 1.75 pence per share which would translate at today's exchange rate to about 20c per share for South African registered shareholders. In fact we have been building momentum all over the business. OMSA again produced as I say an excellent return on equity and remains a powerful profit engine. Group scheme sales grew strongly and our advisers sold more unit trusts in health business than they had done previously. However we did struggle in the broker market and in the lumpy employee benefit area. And overall sales of life insurance products were disappointing. And we are working hard to catch up some lost ground. We have reinforced our efforts to recruit more advisers and we have made changes to their pay plan. We have launched Masthead, the broker services organisation, to build our strength in this area, and we are playing close attention to the lumpy EB pipeline. Our key indicators for this business are life insurance, assets under management, grew 10% year on year, despite the sales issue. And as a result life operating profits grew 15%. But overall the business in South Africa did continue to grow. As I have said, Nedcor has taken important steps to stabilise. There is a long way to reach that 20% ROE target. We have to get there as a run rate by the end of 2006 for delivery in 2007 but we are on the way. At M&F...M&F had the kind of period the property and casualty people dream about. They really were excellent results. An underwriting surplus in excess of 10% and premium growth of 19% were the best results for quite a while. Great job done by Bruce Campbell and his team. And that produced a return on equity which really was exceptionally good at 27%. These results of course reflect our now 88% ownership. And the strength of M&F's Balance Sheet and the strength of the results have allowed the directors to declare a special dividend which I think you all know about from M&F's results two weeks ago. In the United States our life business not only had record sales but these were achieved at record margins. A helpful interest rate environment and the higher margins on our popular equity index annuity range were the main reasons. We were also pleased that our sales diversified. We in fact sold a great deal more life coverage products and also off-shore variable annuity. In the US Asset Management business last year's cashflow, positive equity markets, and a strong delivery of transaction and performance fees, all contributed to profits soaring by 43%. And I think you will agree that that is an excellent result. In the United Kingdom, which of course remains the smallest of our operations, our capacity again extended. Selestia, the business that we have built off our South African IT, achieved sales of £197 million. That compared with £86 million for the same period last year. So it was more than double. The asset management business, OMAN (UK) grew its profits, and again delivered high quality investment performance. And as a result continued to attract hedge fund deposits. Now all of this is supported by investment performance. Most of our customers have at the bottom of their product some way or the other investment performance. Investment performance across the group continued to be the key to attracting new clients. And on a three year basis more than 75%...in fact I think the number was 84% of our US funds under management, and 57% of our South African third party asset management clients received returns above the benchmarks they had set us. And in the UK more than 70% of the unit trusts which we manage were in the top half of their comparative groups. So with that excellent investment performance underlying our products it wasn't surprising that net fund flow from customers was healthy around the world and totalled £4 billion or 48 billion Rand, and it included of course that wonderful \$5.3 billion from the US Asset Management business. So the first half of 2004 was a period of strong earnings delivery with some powerful trends in the US in particular helping us to deliver on our international strategy. I am going to hand over to Julian to go through the financials. Julian.

**Julian Roberts**

Thank you, Jim. As usual I am going to run through the overall financial highlights, then go through the results business by business, and finally a look at the group capital position. The main points in this slide I would like to highlight are, earnings are up strongly, Nedcor is now contributing positively and there have been strong earnings growths in the USA and by Mutual & Federal. Adjusted operating profits are up 7% and adjusted earnings per share up 21% to 6.8 pence. The higher growth at the earnings per share level was driven primarily by a reclassification of taxes in Nedcor. That of course has reduced...this reclassification of taxes has reduced the growth in operating profits so the EPS really reflects the true growth in operating profits. Achieved profits EPS is up 23%, driven by the strengthening of the Rand, the volume of profitable new life business in the USA, the favourable experience variance in the South African life business, and a decrease in the effective tax rate. New business sales, particularly in our group business in South Africa, has been disappointing. However, the strong sales in US life business have resulted in flat performance at £262 million, compared to last year. But due to the higher margins in the USA has generated a 43% increase in the value of new business at £53 million. Unfortunately the VNV is not included in this slide. With assets under management is £130 billion our businesses have benefited from higher market levels, and have seen assets under management and premiums grow, good investment performance and improving margins. And as Jim said, this strong performance and confidence for the full year has enabled us to raise the dividend 3% to 1.75 pence. In Rands the group's results show an operating EPS up 13%. In addition, you will note that the dollar weakened by 17% against the Rand, reducing some of that 30% growth in our dollar profit when translated into Rand. This of course has also had the impact of reducing the growth on assets under management. This slide shows in summary format how the individual businesses performed in their local currency and then translates the results through into Sterling. OMSA continues to generate robust profits up 6%. Nedcor recovery has still a long way to go. Profits are down 46% but you can see significant recovery over the second half of 2003. M&F has delivered an outstanding set of results. The additional shares that we bought from the Royal Sun Alliance has been consolidated from 1<sup>st</sup> January, the time when the deal became unconditional and the M&F results therefore have increased by 55%. Overall the South African earnings were down 5% in Rand, but at £359 million, were up 2%, due to the strength of the Rand. The US businesses have generated a substantial increase in profits with both businesses contributing significantly. Overall the earnings in US dollars were up 30% at \$150 million. Converted into Sterling, this is a 14% growth, to £87 million. In the UK the only point I would like to raise is that debt and other income has benefited from reduced debt costs due to the Gerrard proceeds and also the impact of the preference bond.

So let's move on and look at each of the results in a bit more detail, starting with South Africa. Overall as I said, OMSA continues to produce solid profit growth, with operating profits up 6%. You see on the slide that the South African life business rose 15% driven primarily by the higher level of average assets under management and positive experience variances. The long term investment return was down 5%. Remember as a result of our additional investment in Nedcor and Mutual and Federal, the shareholder funds upon which the LTIR is calculated has been adjusted downwards to take into account those investments. In addition, there was a change in the mix of the shareholder assets, moving out of equities more into cash and fixed interest, which reduced the average rate from 13.4% to 13%. The full impact of these changes will

come through in the second half of the year. The 7% drop in the asset management business's profits was driven in part by higher expense levels in OMAM as a result of accounting for incentive payments, offsetting good growth in income in that business, and also to a 13 million Rand lower trading profit in the unit trust company, due to the impact of the legislation changes made in 2003. Average assets under management in the life business, as Jim has said, which are a key driver of profit, grew by 10% to 211 billion Rand due largely to a rise in the JFC in the second half of 2003. Return on allocated capital increased to 26% from 22%, this increase driven by the profit growth and by lower average capital requirements resulting from the reduced equity exposure.

So moving on to sales. OMSA had a mixed first half for its life new business sales. Overall, on an APA basis they were 14% lower, but this is heavily influenced by significantly lower group sales, with individual sales holding up much better. Let's look first at the group business, the employee benefits business. The low premium level of new business is mainly due to a lack of significant large flows. This business, as Jim said, and we repeat each time we meet, is lumpy. What I would say though is, the pipeline is still significant and the EB sales team are working on a number of opportunities. In addition we are rolling out new product alternatives in the latter part of the year. However, due to the time taken to convert the pipeline, it is unlikely that large EB sales will land in the second half.

Moving back to the retail area. With the exception of the group schemes business which has been growing strongly, overall individual life sales have been disappointing, with both single and recurring premiums flat on the first half for 2003. But this has been compensated by the strong growth in the non-life sales of unit trusts and sales there and you can see we have included these unit trust sales on the slide. They grew by 28%...28% higher than the prior period. And of these sales of 4.1 approximately 50% are in the retail area. From an Old Mutual perspective we will continue to focus on having the products our customers need, and with a return on capital which is even higher for unit trust business, are happy to provide products, in either the shape of life or non-life wrappers.

Moving to new business margin, total new business margin is 19% up from the 18% in the equivalent period last year. Individual margins are up 18% from the 15% due to business mix, with a higher proportion of group schemes business, which is higher margin business, and also to higher levels of green life business and to a reduction in distribution costs.

Moving on to Mutual & Federal. Mutual & Federal announced its results on 26<sup>th</sup> July, so I won't go into them in too much detail. It delivered, as I said before, an outstanding first half result with operating profits up 55%, consolidated, as I said, from 1<sup>st</sup> January. But these results produced a 10.7 underwriting ratio, i.e. a combined ratio of under 90%. Mutual & Federal took full advantage of favourable conditions, with an outstanding half year, increasing premiums to 3.6 billion Rand. This reflects new business acquired as well as corrective action and rating adjustments in unprofitable sectors of the business. Results were strongly influenced by particularly low levels of claims, following benign weather patterns and the absence of large commercial and industrial fires. The strong result that we have seen at the end of last year and this year, has allowed Mutual & Federal to continue to invest in its information technology system, while benefiting from these excellent underwriting results. And you will have seen therefore that the expense levels have increased over the prior period last year.

M&F's strong capital position has enabled a further special dividend to be paid. The solvency ratio currently stands at 59%, but after the special dividend to be paid in September, this solvency ratio will drop to 43%, still well above the 25% regulatory requirement. Cautious optimism prevails for achieving profitable underwriting results over the remainder of 2004. And although there are some signs of softening in the corporate sector, Mutual & Federal remains well positioned for a good second half.

The first six months of 2004 have seen Nedcor make good progress in its three year programme to restore the performance of the group and lay a foundation for growth of this business. The re-financing plan was completed through the 5.2 billion Rand rights issue. Regulatory capital at 30<sup>th</sup> June increased to 12.3% so well in line with competitors. The planned disposal of non-core operations and assets is also progressing well. The group have sold its off-shore subsidiaries Chiswell and Stenham. Onshore non-core investments disposed to date include Century City and Greystone Drive in Stanton, and a partial sale and restructuring of Aplitec. More importantly Nedcor aims to reduce non-core assets, including the transactions made to date by approximately 2 billion Rand over the next two years. The composition of the new group executive has also been finalised with the recent appointments of Mike Brown, the Chief Financial Officer, Phillip Wessels as Chief Risks Officer and Rob Shuter as Head of Retail, collectively increasing the management bench strength. In line with the commitment to improve the yield on and reduce the currency volatility of foreign capital, Nedcor have also repatriated or hedged offshore capital of approximately 4 billion Rand. The capital volatility arising from foreign exchange movements is now substantially neutralised. Risk management has been strengthened with greater focus on controlling liquidity, interest rate risk and credit risk. Our Barsel Two project is well underway and the Balance Sheet has been significantly derisked. Expenses. The hard work on expenses has commenced. By the end of the year the target is to have reduced head count by 2,500 and to finish the integration of the IT platform, but much work needs to be done in this area. Looking at the financial results. Adjusted operating profit at 712 million Rand benefited from improved net interest margin and a lower bad debt charge. This was offset by lower levels of non-interest revenue and higher expenses, which now show the correct allocation of cost for items such as bonuses, which are now expensed, and also transaction taxes, which previously were shown in the tax line. The expenses have increased over the same period of 2002, because they don't yet reflect the management action that has taken place. Total banking assets declined to 275 billion Rand from 287 billion Rand in December. The group has actively reduced certain categories of low margin, low ROE corporate loans, and has followed a generally corporate approach to asset growth, prior to completion of the rights issue. Net interest income has grown to 3.5 billion Rand despite the reduction in advances. The credit environment has been good for banks in this period. Net interest margin has increased to 3.05%. The rights issue had a positive impact in improving the return...the margin by 3 basis points. But the balance of the increase is due to a reduction in the rate of funding of the bank, so largely three components. Firstly, interest rate volatility has been reduced by hedging 6 billion Rand of the subordinated debt. Secondly, the repatriation of surplus offshore assets has had a positive impact as this capital is now returning a higher rate in South Africa than it was earning offshore. And thirdly, some of the expenses funding has now run off. In addition, the change in accounting treatment of the structured finance transaction has reduced margin at the same time as reducing the tax charge. Non-interest revenue is down 12% to 3.2 billion Rand. Profits in exchange and trading have been lower, as volumes have decreased due to less buoyant conditions than

experienced in 2003. In addition there has been a reduction in fee income due to lower levels of structured finance transactions. As part of the rights issue, Nedcor published its target of a 20% ROE that was a run rate during 2006 and effective in 2007. For 2004 our target was to get the return on capital to reach the cost of capital. Although the headline return on average equity, as you can see, is 7.3%. If you take out the FX losses, around 200 million Rand, and also the restructuring cost, then Nedcor is covering at 13.8% our estimate of the cost of equity...cost of capital. Attributable profit generation in the first half together with the management action of more efficient use of capital, has resulted, as I said before, in the capital adequacy ratio at 12.3%. The Tier 1 capital ratio has increased to 7.9%. So Nedcor is well on track in delivering another of its promises of achieving a Tier 1 capital adequacy ratio above 7.5% at the year end. As I say, a lot has been done, a lot has been started, a long way is still to go with the recovery of Nedcor.

Let's move on to the United States of America. US Life business. The US Life business has delivered an 18% growth in profits over the prior year. US Life is reaping the benefit of successfully diversifying its business and has benefited from fund yields rising. Assets under management have reached \$15.3 billion up from the \$12.5 billion at the end of 2003. Overall sales in the first half exceeded 2003 by 21%. The performance was underpinned by equity index annuity sales, where we are one of the few companies with a capability within the group to undertake the dynamic hedging necessary for the product. And as you know, Analytic, in the asset management stable, manages that dynamic hedging. So it means that the US Life business doesn't have to go out and buy options over the counter. New business margins grew to 22% due to an increase in achieved earns yield, relative to assumed pricing yield, needed to support liabilities. The effect of the high volume of new business providing more allowables as well to cover fixed costs, and the increased proportion of equity indexed annuity product which carry higher margin than fixed annuities. You will remember last year end we saw the margins drop. This was because when we priced the transaction we then had, before we had time to buy the instruments backing them, we saw interest rates coming down, and therefore spreads were narrowed. Well what we have seen in this period of time is of course interest rates picking up in the USA, and therefore we have had that additional advantage and therefore spreads have widened again building up this margin. A very positive sign of the maturity of this fast growing business has been a US statutory profit reported during the period. Capital requirements have therefore reduced during the period as this statutory surplus is now being released from the in force book to support capital needs of the business. The anticipated total demand for 2004 is likely to be similar to the \$110 million that we injected into the business last year, but most importantly this is capable of supporting 20% more new business than was written last year. The administration outsource move from COC to TAG is also progressing well. The most complex products have been migrated with virtually 100% of new business now on the TAG platform and 86% of in force policies transferred so far. This has been a very large but a successful project with a lower cost structure beginning to favourably impact expenses. Also good for this business, there have been no corporate bonds defaults so far this year.

I will give you a moment to digest this slide which shows the different types of products that this group is business...that this business is writing, and the different change from 2003 to 2004. As economic and equity market conditions have improved since the first half of 2003, the market for our vanilla fixed annuities that sold so well

in 2002 and 2003 has changed. In the first half of 2003 43% of US Life sales were those vanilla fixed annuities. However in 2004 only 2% of those sales were from that type of business. The agility of this business in developing and launching products to fit market conditions has enabled US Life to continue its growth. Last year in the first half of 2003 we launched our equity indexed annuity product. In the first half of 2004 42% of sales were equity indexed fixed annuities, compared with 14% in 2003. Pleasingly as well life sales have also increased from 24% of the portfolio to 27% of the portfolio, representing a 25% increase in the volume of sales. We aim to keep the wholesale channel and OMNIA Bermuda which totalled 15% as a relatively small, but an important part of the portfolio.

Let's move on to the US Asset Management business. OMAM has delivered an excellent 43% growth in profit continuing the recover back into a major profit contributor for the group. The business has benefited from higher average assets under management following the second half of 2003 market rally. Overall operating margins at 27% have been further enhanced by higher performance and transaction fees and a relatively stable expense base, compared to the similar period last year. As OMAM invest in its retail franchise being launched in September and the restructuring of the Dwight Capital Preservation Fund due to proposed regulatory changes there will be additional expenditure of the order of \$10-\$15 million in the second half of the year. This business has once again though delivered strong gross and net cash flows with net cash flows at \$5.3 billion. The inflow includes \$2.1 billion of cash collateral inflows from our stock lending business, ESEC lending, during the period. You should note however that this is very low margin business. OMAM has broadened our product offering as well with a launch in April of its first New York Stock Exchange listed close end fund. This raised over \$200 million in assets under management and we anticipate making further launches of this type of product in the near future. Strong investment performance continues across all asset classes. 81% and 93% of assets are outperforming benchmark over three and five years respectively. On 21<sup>st</sup> June Pilgrim Baxter & Associates had reached agreement with the SEC and the Office of the New York State Attorney General settling all charges brought by the authorities against PBA in relation to the market timing in the US mutual fund business. PBA agreed to pay \$90 million in disgorgement of past fees and in civil penalties. This has resulted in a charge of £49 million which is being treated as an exceptional item. In addition the \$10 million in fee reduction agreed as part of the settlement will be taken to earnings over the next five years. The regulators are now satisfied. This slide gives an analysis of the asset mix into the seven major styles and the estimated fee range in basis points. You will also see in the appendix section of your packs that we have provided indicative indices for each asset style, for each asset class. Although it is important to note that the correlation of performance with these indices is more obvious over long time periods of say three to five years. You will also see the suggested index to use as a benchmark to enable you hopefully to model more clearly. The first point to note on this slide is the very strong growth in assets over the last one and a half years, since 31<sup>st</sup> December 2002. You can also see from the schedule that assets under the US growth category have declined since the second half of 2002. However this has been more than compensated by the growth in value assets. The fees earned on value though are lower thereby negatively affecting overall margins. With recovery in the markets and the growth in net fund inflows we are tending to invest in developing our load fund capability and also therefore boosting the size of our growth fund capabilities.



Let's move on the UK and the Rest of the World. Operating profits for the UK and the Rest of the World, excluding Nedcor related profits decreased to £4 million due to surplus property positions and one-off profit in OMI last year. Within the UK Selestia's business continues to grow with assets under management increasing by 65% to £477 million as a result of reaching £197 million of sales, more than double the level of the first half in 2003. The number of IFA's using the Selestia system has risen significantly, showing that this business really is beginning to get traction. In total net effect on the cash flow was a positive £26 million. Strong inflows of Selestia were offset from outflows from OMAM (UK) due to Gerrards redemption and to outflows following the Bright Capital restructuring. US investment performance remains strong with more than 70% of unit trust assets above their peer group comparative median over three years. In fact it's closer to 80% rather than 70%.

Finally let's move on to the group capital position. We continue to use capital efficiently with a group gearing level at 17.5%. Along with our UK peer group we are now including hybrid capital within the gearing ratio and you will note our new definition. If hybrid capital is excluded then our gearing ratio is around 11%. And so therefore if you want to make your own view of how much hybrid is actually equity or debt we have therefore given you the ranges to work through. In May 2004 we raised a new £1.1 billion five year syndicated revolving credit facility at better returns than the number of existing bank credit facilities that we retired. The new facility undrawn at 30<sup>th</sup> June 2004 ensures the group maintains an appropriate level of financial flexibility. The capital position of the group is closely managed following the financing of the acquisition of minority interest in Mutual & Federal, and the successful rights issue at Nedcor earlier this year. And we are working through the calculations now we have got the finalised financial groups directive issued at the end of July. Driven by the strong performance of our businesses in the first half, our interest cover has increased very substantially to 22 times, outside of Africa interest cover has almost doubled to 4.1 times.

In summary therefore the US businesses have driven good profit growth with strong inflows in asset management. Life sales in the United States were buoyant with increased margins. However, we are focusing on strengthening the life product sales in South Africa. Nedcor has been stabilised and has achieved a return matching its cost of capital in the first half of the year. And achieved profits increased very strongly driving the embedded value to 114 pence.

Back to you Jim.

### **Jim Sutcliffe**

Thank you very much, Julian. I thought I should start by reminding everybody of our strategy. We are taking a strong South African business and creating from it a powerful international financial services group, with three legs in the US, the UK and here in South Africa. And our business is built around the provision of high quality investment skills to our customers, with locally developed products to build and protect our client assets. And we do set up this business on a regional basis because that allows us to recognise that the products as customers see them are driven by local tax and cultural preferences and our management can then focus on the needs of their customer bases. You can see from the pies down the right hand side of the chart that our journey is well underway. If you look at the top pie, Life new business which is

obviously an important indicator. 53% of the sales that we made in the first half of 2004 were in the US and you can see just by looking at the pie that the business is well spread. In fact if you look at the value of new business it was 57% in the US. And of course Selestia which sells mainly unit trust business, although it does sell some life insurance business, isn't scoring, so that's...that little thin slice at the top there, if you think of the growth and distribution capability from Selestia we are adding more in that sector as well. If you look at the next pie, the funds under management, you can see, as has been the case now in fact for a couple of years, that the bulk of the customers that we look after are in the United States. 65% of the assets that we manage are US assets, 23% South Africa, 12% UK. There too you can see that the diversification has proceeded. And at the bottom, the embedded value, what you get from Old Mutual when you invest in Old Mutual, 66% of the value of the company in South Africa, 31% in the US and that little slice still in the UK. But you can see that as these pies become multicoloured, that our journey is well underway. In each of the geographies in fact as we have shown you before, we have an approach that is tailored to the opportunities and indeed our strengths in each particular market. In South Africa we aim to be the leading provider of banking and insurance products to all South Africans. Our well established businesses are solid cash producers and the market affords us the opportunity both to grow clients and assets under management. And you have seen both of these in the first half of this year. In the United States we are optimising the performance. We have two great platforms there. We have positions in attractive market segments and the potential to grow and grow the profitability of the business remains substantial. In the United Kingdom we have used our South African base to create some well regarded and powerful businesses. They are still small but their organic growth is now well established. And we do have the ambition to be much larger. As you all know we have looked at a number of acquisition opportunities and we continue to do so. Let me just go back to Nedcor. Unlocking the power of the Nedcor brand is crucial for Old Mutual. Many of you will have heard Tom speak last week and you will have had a full opportunity to review Nedcor's results. Nedcor is at the beginning of a lengthy road and none of us underestimate the challenges ahead of us. So we have identified key steps along that road and we are working hard to drive the business forward. As you have seen, and as Julian has commented, and Tom commented last week, Nedcor on an underlying basis are excluding their one-offs in the foreign exchanges and the restructuring costs has achieved a return on equity of 13.8% in this period. And that is roughly the cost of capital for the South African banking industry. And you will recall that Tom, at the beginning of the year, spoke about that being the first milestone to achieve. Julian also pointed out that the Tier 1 capital ratio which we laid out at 7.5% by the end of this year, has in fact been delivered and exceeded at a group level at 30<sup>th</sup> June, so well on track there too. And the risk reduction programme I think is crucially important, both from a foreign exchange point of view and an interest rate point of view. And both of those programmes also have been delivered. But if you don't see a bigger and longer list of things on the right hand side of the still ahead pile if you like, then what we have done, much as that might be, we didn't explain ourselves properly. There is a lot still to go. Of course, the top one is key. We have to hold expense growth below revenue growth for the balance of the period, through to that 2007 target, and we are very much committed to do that. We will need extra help with building our MIS, building our infrastructure, and Julian has spoken about some of those things that are underway this year. Reducing expenses will require a rolling programme of productivity improvements. And we are still aiming at a cost to income ratio in 2007 of 55%. We have lost some market share in Nedcor in 2004 but our franchise remains very strong.

And we do plan to grow assets in line with the markets over the period. Funding costs will decrease further when our fixed rate instruments reset, mostly in 2007. And we do think we can deliver better NIR results including from bank assurance. And we can talk through the detail if you would like in the Q&A session. In summary, we expect to progress steadily towards the 20% ROE target with advances being made each year. Black economic empowerment is of course a very important subject for us. And we have made it clear in the past that we believe that the value of Old Mutual is optimised by embracing BEE wholeheartedly. We have been actively developing our strategy and we are committed to making progress with BEE in all areas. We have spent and continue to spend a great deal of time helping develop the financial sector charter. We do intend to bring forward later this year proposals to introduce the shareholders to our South African business at a level in such a way so that it includes all of the three businesses we have in South Africa, so that's to say the life business, Nedcor and M&F. So we will do it in an inclusive way. Each of our businesses has plans and is addressing plans in the human resources, the employment equity area, procurement and access to products amongst other aspects. And much work is being undertaken to ensure that our BEE model adds value to all stakeholders involved. We will ensure that our proposals are robust and contribute to the development both of South Africa as a country and Old Mutual in particular over the coming decade. All of our management teams have big agendas for the coming period. We have talked about Nedcor. Let me just concentrate on the others for a moment. At OMSA Roddy and his team have a huge amount of effort going into the sales side. We are determined to maintain our market share of the retail savings industry. And there is clearly work for us to do. We have had some bright spots. The group schemes have gone well. The unit trust sales have been great. We don't intend to allow anyone to take anything else off us. We are renewing our efforts to hire advisers. We are offering more and better services to brokers. And on the employee benefits side we are working that pipeline. As Julian said, we are not uncomfortable to sell unit trusts rather than life insurance products. Our job is to make sure the customer gets the product most suited to his needs. That's what our whole strategy is about. And indeed the ROE on things like unit trusts are just as high as life insurance business. In Mutual & Federal we are already seeing some price pressure on corporate risks, and those of us that have been around the industry know that the insurance cycle always comes back. And no doubt it will here too. We will manage this carefully. We will maintain our underwriting discipline. We are continuing as Julian said to invest in better underwriting tools and some underlying IT systems, so that we do have the best possible basis for profitable operation. In the US Life business we will complete the transfer of the existing business to the new outsource provider, to TAG. Julian already mentioned that we were 86% of the way through. That will finish in the next couple of months. We have a target for the US Life business as capital self sufficiency in 2007. I think Julian can tell you more about the statutory profits that have started to emerge in that business, which is a good sign of progress in that direction. And making sure that we both grow, but grow in a controlled way and attract high ROE business remains the key issue for the management team, getting those combination of distribution and pricing skills in line. In the asset management business in the US, Scott and his team are very much focused on the launch of a range of load mutual funds...so these are mutual funds sold through commission earning advisers. We will be doing that in September and this will open a whole new distribution front. We have already hired a large number of wholesalers,...we are rounding that hiring process out at the moment...who will promote the product to the retailers and big sales forces, like companies like Merrill Lynch. We have created products particular for this venture, under the Old Mutual

brand name, and products that will draw on the combined skills of a range of our affiliates which of course is our competitive advantage against other providers. Julian has also indicated to you that our US equity management capability is strongest in the value style. And we do want our affiliates to remain focused on their areas of special expertise. However we would like to offer clients a wider range of growth management capabilities and we are actively looking for ways to expand our activities in this area. In the UK our start-ups will continue to build. Selestia is extending its links to the IFA market and we are providing OMAM with seed capital which is another form of investment in growth in our international strategy, to grow its asset management reach. As I have said many times, we remain interested in making an acquisition in the UK, but we will not be hurried into overpaying. So we do feel that Old Mutual has demonstrated growing momentum in the first half of this year. And you can see it by reviewing the key indicators. ROE at 19% is a number that few of our international competitors can meet. The EPS at 6.8 pence has shown product delivery, up 21%. Assets under management which as I have said is the key driver of our revenue are up to £130 billion. And embedded value at 114 p, plus of course you have the dividends, is up 9% on its own. And all of these are healthy signs of a company making good progress. And perhaps another one, just not on the slide, but I think it's worth talking about. Value of new business is often used by many people in our industry to gauge the progress and the health of the company. And value of new business for the first half of this year was up 43% on the comparable period last year, which is a huge rate of growth, that's £53 million or 641 million Rand. And I think you can see that the challenges that have been met, that's the way in which the company has addressed the issues that we have to address, we also have something to talk about. Nedcor has been stabilised. Of course the potential of Nedcor is still ahead of us. That long period up to 2007 to build Nedcor is still a challenge ahead. But the first challenge has been met. And in the US asset management business, which not too long ago was a worry to many people, has been built into something that is very powerful by Scott and his team. The distribution franchise is strong. The investment performance is coming through. The PBA regulatory issues have been resolved. And each of our three legs has the potential to do much more. As they focus on their local clients and build on the momentum in the first half. Because we do believe that the momentum of the first half will continue to come through in the second half. In South Africa our businesses are big cash generators and they do have the potential to grow as South Africa grows. In the US the sales momentum that we have already generated will continue to grow assets under management. A growth pattern has been established. And in the UK we are creating goodwill by growing up that small base, using our strength in South Africa to create businesses, and we are on the lookout to complete our internationalisation by building further. I do think that over the past two years Old Mutual has shown its investors that its strategy and the diversity of its businesses provide protection against market volatility whilst offering the potential for earnings and value growth in the participation in some growing and profitable financial services markets internationally. So we do face the future with confidence. Ladies and gentlemen that brings to an end the formal part of the presentation today. We will as usual now take questions and we will alternate between Johannesburg and London. And perhaps we could start here in Johannesburg. And I think as was said originally, if you wouldn't mind getting a microphone so the people in London can here you before you ask the question. And please say who you are again people in London won't be able to see you. So if you could do that. And so could I open the floor to questions please.

**Mari Sverem, BJM**

The aggression of Resolution Life, does that not increase the potential cost of acquisitions and increase the urgency to be looking at potential closed books in the UK?

**Jim Sutcliffe**

Thanks Mari. Just to complete the story. Resolution Life is of course required the closed book of Royal Sun Alliance life business. I have seen two analysts reports on the thing and I don't know a lot about the deal. One says Resolution Life got a great deal the other said RSA got a great deal. So I don't know. I mean I can guess the question which you made. But I think from my point of view the good thing about that deal is that it shows that these deals can be done. They are open to being done. And therefore there are opportunities out there. I think from the point of view of was the price right, I think Mari is being perfectly clear, that if the price isn't right, we have got lots to do to have Scott grow a lot more. We have got lots to do have Guy Barker and his business grow a lot more. And we intend to maintain our financial discipline. I think the nature of closed books in the UK is actually quite broad. If you look at another one that has been done, which LAAC, LAAC interestingly was bought by a subsidiary of Fisri, and again I don't know a lot about the details of this transaction. But I do know that the unit of Fisri that bought it was called Adminri. And you know that that name tells you what they are going to do with the business. Now of course our strategy is built around the idea that we could bring the admin to South Africa. So I think what you are seeing is the window of opportunity probably opening, which I know has been a worry for some people, that somehow it was closing, which I don't believe. But as to the price, it's one buyer, one seller at a time. And our position is that we will be disciplined on that subject. More questions in Jo'burg.

**Richter, Deutsche Bank**

Now it seems you have been losing market share individual life group business and even unit trusts your net sales have been quite weak. Now maybe Roddy wants to give some ideas of where the strategy is on that side.

**Jim Sutcliffe**

I will get Roddy to...Roddy Sparks to talk to that.

**Roddy Sparks**

OK thank you, Richter. Richter if I can just take those areas quickly and one by one. If you look at the distribution strategy in the retail area, it's going to PFA. PFA we are building our sales force. We put new management in there at the beginning of the year. We have seen a turnaround in the growth of our numbers they are chalking up month by month. We have added about 50 or 60 advisers to the sales force over the last three or four months. So that cycle is turning. We have also changed the remuneration model to make it more attractive for new advisers to join us and stay with us, and we have seen the benefit for that flow through. On the broker side we have got a particular project at the moment to improve our service to brokers. I think it has been lagging for a while, and frankly not terribly happy with it. And so there is that specifically and then also we have launched the Masthead initiative which is a

broker network sponsored by Old Mutual and it's there to ensure the continued sustainability of the independent broker movement in South Africa. And that we have signed up 1900 independent brokers into that initiative which is a number far beyond our expectations. We are very happy with that. And I think that will help us cement that. Bank assurance. We are working very hard with Nedcor. We have seen our bank assurance sales up 34% on an APE basis in the first six months. But there is a lot more to be done and both parts of the organisation are working hard at getting that through. On the group business, Jim talked about it, but there is a very substantial EB pipeline which didn't move in the last six months particularly well. The business did not move away from us and that's important. The business didn't move at all. And we have got very specific interventions there to try and get the business to flow. When it flows and where it flows of course is a matter of conjecture at this stage. But we are committed with very significant strength in our sales force there. There are a number of strategies across to piece, as well as the good old bread and butter of investment performance products and service.

**Jim Sutcliffe**

Thanks Roddy. We will take one more question in Jo'burg Julian and then we will come over to you in London. Another question in Jo'burg. Dave.

**Dave, UBS**

US Asset Management performance is very good. What is there in terms of incentives, have they been provided for on the expense line, and is there a possibility of further cost down the line?

**Jim Sutcliffe**

I will get Scott to address that.

**Scott Powers**

The way the business has been structured, the incentives are accounted for as a function of...in the broad base of the business, it's a function of operating profit. So the affiliated firms actually share in the success of the business and are aligned with Old Mutual. Because as we deliver pre-tax profits they retain a share of those pre-tax profits for incentive compensation. And that is shown in the variable comp line. And you saw that go up significantly from 2002 to 2003 as we had success rolling into 2003 and you have seen that line accounted for in 2004 as well. So we have our accounting for the incentives and the incentives are aligned for success in delivering to shareholders. There is a sub-set of the business that is still on a revenue share. There are three firms. They happen to be firms that have grown quite nicely. And that also has leant itself into the variable compensation line because we have a contractual obligation with those firms as they grow a dollar of revenues they share in that growth as well. So that has all been accounted for and it really is a good alignment of incentives to ensure that we continue to grow the business, and grow profitably.

**Roddy Sparks**

I think it's also true. We are thinking about the (??) for those firms. We haven't got anything to talk to you today, but it is a subject under discussion which we will come

back to when there is something sensible to say.

**Jim Sutcliffe.**

OK Julian can we go over to you in London and ask if there are questions in London.

**Julian Roberts**

Yes, certainly. If people can remember to have a mike, and aswell, if you could stand up aswell so we can get a camera on you, so you can be seen in Jo'burg. David.

**David Miskin, Merrill Lynch**

Good morning, it's David Miskin at Merrill Lynch. I wonder whether you could give a few more details on the experience variances within the South African life business, where the positive figures have come from, how sustainable they are, and I think this is the second six month period where we have had quite large positive variations, whether you are thinking of any assumption changes? Thanks.

**Julian Roberts**

I think, Jim, you probably have Gary in the audience. Do you want to pass the mike to Gary?

**Jim Sutcliffe**

For those who don't remember there is a four second delay between us and them, so if we talk over each other forgive us. But Gary Palther, our Chief Actuary in South Africa, is going to answer the question.

**Gary Palsler**

The...one sector that has been positive in both the individual business and group business has been the health experience and the group business, the group assurance profits increased quite nicely. So that was using mortality and the disability experience, and within the individual side aswell, we continue to find strong growth in mortality profits. There has also been an improvement on the expense side and those are probably the main drivers of the experience.

**Jim Sutcliffe**

Thanks, Gary. Julian, just to go back to you in London if we may and ask for another question in London. If you take two more questions in London and then we will come back to Jo'burg.

**Julian Roberts**

The microphone for Roger.

**Roger Hill, UBS**

Two questions, firstly can you just give us an idea of the debate between whether you acquire in the UK or control growth in the US. I am not too sure why you just don't do more in the US. And secondly, can you explain some of the investment variances

and the changes in the embedded value assumptions. There are some quite large negatives if you go through the embedded value numbers below the line.

**Julian Roberts**

Jim I think if I make the comment on the first one and then I think we will hand back to Gary on the second one. There is an absolute debate that we have the whole time on the use of capital and where we can get the best return of capital. Our view is, there is a limited amount of capital. Our US business is gaining good traction. And what we want to do which our competitors haven't been that successful about, is actually to grow this business at a reasonable rate so it starts throwing off capital. We are not just going to pour all our surplus capital into one line of business. It goes back, Roger, to our diversity argument, that we believe the risk to this business is lower if we can have three strong geographies. So we will still continue to manage the business, reduce the amount of capital in the US Life business while continuing its growth and to try and get that spread of businesses across the globe.

**Jim Sutcliffe**

Thanks Julian. We will turn over to Gary again.

**Gary Palsler**

Alright. What you have seen in both South Africa and the US is an increase in interest rates. And increase in interest rates means you discounting future profits at a higher rate which is why the investment economic assumption changes have been negative. It's the reverse of what you have seen in the previous year.

**Jim Sutcliffe**

Thanks Gary. Julian, last question in London.

**Julian Roberts**

Is there one more question. Yes, a microphone.

**Armen Busleven, Dresdner Lambert Wasserstein**

Armen Busleven from Dresdner Lambert Wasserstein. A couple of follow up questions really on margins in South Africa and in the US. In South Africa what would the impact of offering more attractive commission incentives to new agents be on margins? And could there be a flow through impact on existing commission arrangements aswell? And moving on to the US, what part of your margin improvement, or rather how much of your margin improvement could be ascribed to the widening bond yields that you saw in Q1...in H1 sorry? And also how much of margin improvement could be ascribed to lower financial market volatility and therefore lower hedging costs in your equity indexed annuities?

**Julian Roberts**

Jim I am happy to deal with the second one here, do you want to tackle the first one?

**Jim Sutcliffe**



Yes, Julian, that is what I was going to suggest. Why don't you ...or you and Guy tackle the US one first.

**Julian Roberts**

OK. Guy always says that I never give him an opportunity to answer a question. So Guy do you want to deal with how much of the proportion is on bond yields and how much is mix of business?

**Guy Barker**

Julian didn't have that quite right. I always thank him for not making me answer a question. On view of rising interest rates ...of our new business profits about \$5 -\$10 million is due to the combined effect of those items you mention. Most of the balance of the enhanced profitability is due to the fact that our second quarter and left our infrastructure expenses well behind. So the bulk of the difference is an extensive infrastructure cost, the balance of it is in the investment, rising interest rates between pricing and placement. And some, and I haven't quantified the split in the lower cost of derivatives and volatility.

**Jim Sutcliffe**

OK. Julian, thanks very much. And I think perhaps it is worthwhile saying, if Guy wouldn't mind my adding to that, that our long term targets for margin in this business is in the high teens which we have said every time we report. So the 22% number that you have seen is above our long terms expectation, just as the 11% in the first half of last year was below our long term expectation. So I think we will see that coming back when conditions are normal. But let me just hand over to Roddy if I can, to talk about South African margins and the impact of changing commission arrangements and what impact that has on the end yield.

**Roddy Sparks**

The first point to note is that we do have commission regulation in South Africa. And although there is a probability that the single premiums could be deregulated, there isn't any discussion at this stage of premiums being deregulated. So we do operate in a regulated environment. My concern would be when we get to deregulation, that I don't think that in a lower nominal returns environment, the current environment, the industry should be paying more in commission over the years ahead. So we will be very reluctant to push commissions up from where they are. If anything I think longer term the pressure is in the opposite direction. I think that's really....the other thing to perhaps add is that, whereas we come up at 19% average VNB margin now, our normal range would be 20% - 25%. So we are at the low end of the range and that reflects the lower volume throughput quite frankly. Thank you.

And I think then, just to pick up the first little bit of your question. The impact of the changes we have already made on VNB, the change was fundamentally not about paying more commission, but it was about the timing of paying commission. We were annualising....all our competitors were annualising monthly paid premiums and paying commission on the annual amount, and we were paying on the monthly amount. I

might have the detail marginally wrong, but that is...that is the thing that was changed. And that was putting us at a disadvantage. But that doesn't clearly change the margin significantly.

**Jim Sutcliffe**

OK, just to come back to Jo'burg if we may. Are there any more questions in Jo'burg. Stephen Camsen first and then Sean Marswell if that's alright.

**Stephen**

I see in the main presentation it said unit trust is 4 billion inflows and then it is 2.5 in the appendix. I am just wondering about that. And maybe also if you could make a comment on the level of churn in unit trust, whether that's still unacceptably high.

**Jim Sutcliffe**

Stephen I am going to get either Roddy or Peter Goldsworthy to ...just give us the page number and if you don't mind I will just take Sean's question and then come back and get you an answer on that question if I might. Just what page are you looking at there?

**Stephen**

No. 4 in the appendix.

**Jim Sutcliffe**

No. 4 in the appendix, that's slide 4 in the appendix. OK, that's fine, Roddy and Peter, just make sure you have got the facts and then I will come back on to the question. Sean do you want to ask the question in the meanwhile.

**Sean Marswell, J P Morgan**

Can you just explain what the reason was for the substantial negative effect of the change in cost of solvency capital. There was a 729 million Rand negative.

**Jim Sutcliffe**

So again Gary this is one for you.

**Gary Palser**

This (??) was something that happened in 2003. That wasn't a 2004 factor. Is that right, yes?

**Sean Marswell**

Good point, yes, thanks.

**Jim Sutcliffe**

No, that's alright, no problem. Have you got the answer to Stephen's question?

**Roddy Sparks**

No, I don't have the answer to Stephen's question.

**Jim Sutcliffe**

Yes, we will just talk about churn, just for a second, because I think Roddy you can talk through that subject generally. Because I think that was....sorry (??) can you give the thing to Roddy.

**Roddy Sparks**

Stephen the churn is quite high at the moment and we are still seeing a lot of customers putting their money into money market funds. So although the gross number is 4 billion and that's a good number but churn is relatively high, and we are just getting the answer to your detailed question in a minute.

**Jim Sutcliffe**

Stephen, would you mind, we will just answer after the conference, if that's OK. And then Marius, sorry, Sean unless you had another one. OK.

**Marius**

Sorry I am using the opportunity while I am in Johannesburg.

**Jim Sutcliffe**

And welcome to Johannesburg. I should have said that at the beginning, that Marius is here.

**Marius**

Your black economic empowerment transaction. Are you weighted towards a lead empowerment...a lead empowerment partner or maybe more towards an employee driven type of transaction?

**Jim Sutcliffe**

Marius I think we will make the announcement when we have got something to say. I mean that...I think if I just sort of not answer the question directly if you don't mind, but just talk a bit generally, that there is no doubt in my mind that at the end of this process what you want to have, is you want to have a staff complement that reflects South Africa, and the staff complement that will deliver the value to shareholders hugely. So it's very important for us to have a well motivated and representative staff complement. Stephen, excuse me, Stuart, sorry.

**Stuart (??), Merrill Lynch**

I just wanted to find out what opportunities would there be for the group if at any stage you find excess capital South Africa, to be able to manoeuvre that excess capital to where it best suited.

**Jim Sutcliffe**

Julian do you want to pick up that question please.

**Julian Roberts**

Stuart it is a bit of a hypothetical question in the way that our surplus capital in South Africa has reduced quite significantly with the investment in Mutual & Federal and in Nedcor. What I would say though is we have never had any problem with the regulators, with the reserve bank on extracting any capital that we have wished to out of South Africa.

**Jim Sutcliffe**

I think if I can add to that aswell. I don't think. Well let me start even further back. Our strategy is not about taking capital from South Africa. Our strategy is about applying the capital to good ROE opportunities. There is nothing in our strategy that says that we won't take any surplus that we have got in South Africa and apply it to a damn good South African opportunity. And you know when Mr. Campbell produces a 27% ROE I don't mind giving him a bit more back in this special dividend. If I can (??) and he gives me 27 he can do some more of it thank you very much.

**Edmund (??)**

On the RSA employee benefits business I mean we saw volumes dropping by 48% but the margins still going up, can you just explain again why is that?

**Jim Sutcliffe**

If you go back last year, you need to look carefully at the product mix. The EB product mix has two bits of it which have very different margins and Roddy and Gary help me on this. But at one end you have got symmetry which is the multi-manager product which is unit linked and has got very low margins because there is very low capital. And at the other end you have got a lot of...you have got the pattern in with-profit annuity range and that has got a lot of capital in the high margin. In the first half of last year we had a lot of symmetry and so the margin was actually lower than we showed in any other period. And in this year we actually haven't had a lot of with-profit pattern in business side of it, it has been mainly recurring premium I think the balance that is in there. So it's just product mix that is within there, rather than anything else. That's why I said I think it's important for us to look from a margin perspective in the South African EB business at a product level, because the pricing is driven by ROE, not by margins per se. Therefore you price to the ROE target. If there is a lot of capital you get a high margin. If there is a little capital you get a low margin.

**Roddy Sparks**

Sorry and the other thing Edward is you look at volume dependent, because we don't have a lot of sales overhead. It's not like the retail business where you are carrying the channel overheads and you are very sensitive to volume changes. In the employee benefits area it's a small group of people, so your overhead is relatively small.

**Jim Sutcliffe**

OK, thanks. Julian can we come back to London and see if there are some more

questions in London.

**Julian Roberts**

Any more here. Yes. We have got two more question. Hand around the Mike.

**Alain**

How did you guess it was two more questions. On the...back to the employee benefits business in South Africa, is there any read through from the fact that you have not done a BEE deal. Is that why the pipeline is not materialising or is there some other reason? Can you tell us why? And second question on the BEE deal itself. You have, Jim mentioned that you have brought forward your plans for a shareholding (??) deal, what is the reason for that, because the last time I heard from you my impression was that shareholding is not an important part of the...of the scorecard, and therefore not hugely important for you to meet your BEE targets.

**Julian Roberts**

Jim, do you want to handle that from Jo'burg?

**Jim Sutcliffe**

Yes, thank you Julian. Apologies for talking over you. Let me just deal with the second first, and then I am just going to let Roddy talk to the impact in EB sales. I don't think it is true to say that we have brought forward our plans. I mean we have been working hard. And I think if we left the impression that the ownership element wasn't important we erred. It has always been important. It is not a simple subject. And we want to do it as I have said, so that it's robust for the long term. And that has caused us to be careful. But we simply have been pressing ahead as fast as we can. And that has been the case and will be the case. So Roddy just on the employee benefits sales issue?

**Roddy Sparks**

Alain, thank you. Alain, the...I think at this stage it wouldn't be fair to say that the sales are as a result of not having done an ownership transaction, although I do think as one goes into the future that risk does rise. We...yes, we have been very close to the client, the potential clients in our pipeline. We sit on top of them...we are on top of them every day. And I can safely say that business has not moved away from us, especially the business we have been targeting. So at this rate the business simply hasn't moved because of various impediments to the process from the client's point of view.

**Jim Sutcliffe**

Back to you Julian.

**Julian Roberts**

James did you have one.

**James Pearse, Kavanagh**

Could you remind us what the rationale is for holding a Nedcor stake. It doesn't seem to give much operational benefit at the moment. It is causing you plenty of trouble. And it creates a significant concentration of risk as an investment. Thanks.

**Jim Sutcliffe**

James, as you would expect, I disagree with many of your points there. I think it does produce good bank assurance and synergy opportunities. You know, you...the fact that we haven't taken it enough you can clearly view in two different ways. Either it isn't there or it is all ahead of us. Now I am very firmly in the all ahead of us camp and the reason I am there is if you look at the South African market, it's clearly the case for our competitors. So you know I think empirically you can see in the South African market that banks and bank insurance groups are the primary method of operating. I think as far as the opportunities for Nedcor ahead of us, I actually think the opportunity is huge. I don't think the Nedcor share price at 57 Rand or 55, I haven't looked at it today, Tom will tell me where we are...or 60 Rand even, represents the delivery of full return for what the franchise and the capacity of Nedcor is. And so I believe that we can get a good return on the investment in Nedcor. I think just from a concentration viewpoint, I also think, if you don't mind, James, the numbers don't support what you said. The concentration...if you look at the proportion of Old Mutual that is represented by its investment in Nedcor, it would be not very different for example of the proportion that is invested in Scott Powers US Asset Management business. So I don't think there is an excessive concentration, even if I thought that was a concern.

**Julian Roberts**

Any others in London? No more in London, Jim, back to you.

**Jim Sutcliffe**

OK, any more in Jo'burg. Richter.

**Richter, Deutsche Bank**

On the South African Asset Management business it seems very weak, especially if you include the inter-segmental elimination. Now (??) huge, compared to previous years. Maybe a bit of background there and also some numbers on additional costs in OMAM.

**Jim Sutcliffe**

OK, perhaps I can just pass that over to Roddy if you don't mind.

**Roddy Sparks**

Richter I will pick up the costs in OMAM and then I am going to ask Peter Goldsworthy to pick up the inter-segmental stuff. OMAM for the first time accounted for the cost of its share incentive schemes. Previously we hadn't accounted for those explicitly and that took 22 million as I recall off the...or added 22 million to the expense line. And it's kind of as simple as that. Otherwise the business was tightly managed. Their revenues grew. They grew the assets under management, other than the life company assets by 25% over the period. Obviously that's investment returns

plus net cash flow, so attracted 4 billion Rand odd of net cash flows other than the life company, that's off third party pension fund money. So I am happy with their performance as I said we will be accounting for the share scheme or the cost thereof for the first time and that impacted them. Peter.

**Peter Goldsworthy**

On the inter-segmental adjustments. We have shown those for the first time and they reflect the transactions that happen between different parts of the group. Clearly where expenses reside in one part of the business and it pays ...receives revenue from another, eliminating the revenue from the one side leaves you with an odd result. So what we have tried to do is to demonstrate the effect of those inter-group transactions. From a segmental point of view we believe it is appropriate to show it, as we have done in the past, showing where the revenues and the expenses are ...are matched.

**Jim Sutcliffe**

Any more questions in Jo'burg? Julian last chance in London.

**Julian Roberts**

No, London is quiet.

**Jim Sutcliffe**

OK, well then in that case, can I just say thank you to everybody here. I am sure there are some refreshments outside in London, as there are here in Johannesburg. And we look forward to talking you through. And if there are any more questions, all of our team are available to answer anything further. But thank you again for attending the presentation this morning.

END.