OLD MUTUAL | plc

Preliminary Results 2004

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Johannesburg & London

Jim Sutcliffe

Let's get straight down to business and take a look at the summary of the results which is now on your screens in both Sterling and Rand. And as you can see Old Mutual had a very positive year in 2004. The momentum that we spoke about last August continued into the second half, with earnings per share up 53% in Sterling and 46% in Rand.

Most of our earnings as you know derive from the assets under management that we have from our clients and indeed from our banking assets. Assets under management grew solidly in the year in each of our businesses with growth in Sterling of 12%.

Our embedded value per share, which as you know is a key marker for many of our shareholders, also increased, in fact by a strong 33% over the year to £1.39 or 15.08 Rand, with the recovery in the Nedcor share price and strong equity markets supporting the contribution from profits.

Return on equity is the most important indicator across the business and at 19.1% we produced a result that most of our international competitors can only aspire to, and a considerable improvement on last year's 14.4%. Julian will run through the operations in a minute, but the return of Nedcor to profitability and the excellent client cashflow in the US asset management business are amongst the more pleasing aspects.

All in all the directors have recommended an increase in the final dividend to 3.5 pence for a total of 5.25 pence which is an overall increase of 9.4%. For South African shareholders this will as usual be translated into Rands in April but at Friday's exchange rate this would have been 39 cents which is roughly the same as last year.

When we spoke to you last August we outlined our programme for the second half of the year and I am pleased to tell you that all the items on the screen, on slide 1, have progressed well. Certainly they have all been receiving vigorous attention.

Assets grew at OMSA by 15%. Equity markets helped but sales were slow in some areas despite our shoulders being to the wheel.

Nedcor has much to do to reach its 2007 target but it is hitting the agreed milestones, in particular the Tier 1 target ratio which we set at 7.5% for year end, and you will know from Nedcor's presentation last week, and Julian will repeat, that it's at 8.1% at the end of the year. And we remain actively involved as Nedcor moves to recovery.

M&F faced the pricing pressures well. A 7.8% underwriting surplus in UK accounting or a 9.8% underwriting surplus in South African accounting standards is a result to be very pleased about. And I suggested to Bruce Campbell that he take just a moment to sit back and enjoy the top of the cycle. These boom times don't last forever in the short-term insurance business.

In US Life business we hit our $4 billion sales target almost exactly, and the margin at 23% was well above last year's 15%. The new outsourcing arrangements are now in place.

In the US asset management business "load" funds were duly launched on 1st October and in fact actual sales in January of mutual funds and separately managed accounts total $95 million. We have now agreed terms to create a strategic alliance with a firm called Copperock which is a small cap growth style management firm and we are close to doing so with a multi-strategy alternatives hedge fund team.

In the UK the start-ups really started up. In Selestia which continued to win awards for its South African built systems and products, we nearly doubled sales to £423 million. OMAM continued to attract high margin hedge fund products. We lost a little money from the old Gerard unit trusts with Gerard now under Barclays ownership withdrawing some of that money.

When we stood here three years ago we actually laid out some targets for the end of 2004, and I would like to show you how we did. (Slide 2) We didn't hit all the buttons, as you can see, but I do think it's a creditable performance. In OMSA operating profits did grow at the target rate, and despite the sluggish net cashflow, the ROE has remained at the top end of the target range.

We didn't meet our targets at Nedcor as I have said. A huge effort was undertaken last year to get back onto a positive path, and our staff have responded extremely well to this challenge. The recovery programme is now in gear to get back to the target level, and our target of a 20% ROE in 2007 remains in place. It will, of course, take much more strenuous effort.

M&F has easily hit both the profit and the growth targets, and indeed it has been very cash productive on top of that.

In the United States our growth targets were exceeded by over 250% so growth has been huge in the US businesses. The profit targets were a bit more of a struggle. On the Life side the rating agencies demanded ever more capital and we slightly overestimated the profitability of the in-force block that we purchased in 2001. Nevertheless the return on embedded value over the past three years has been 12.7% per annum compound, which I think is in good order.

On the asset management side the poor equity markets at the beginning of this period, our investment in distribution programmes and a lower mutual fund proportion all left us behind the target. But profits are now growing rapidly as you can see.

In the United Kingdom the targets were set when Gerard was part of the group, so accurate comparisons are a little difficult to make. But I think that the net cashflow from the start-ups will please everyone. And the sale price of Gerard easily reflected the attainment of the profit target.

So ladies and gentlemen, 2004 was a year of delivery for Old Mutual, and we have now evolved into an international company. As you can see by the splits on these now familiar charts, each of our businesses internationally and in South Africa showed good earnings in 2004. So that overall, as I have said, profits rose strongly. I will now hand over to Julian to go through the financials. Julian.

Julian Roberts

Thank you, Jim. Good morning, ladies and gentlemen. You have heard from Jim the progress we have made since 2001. I would now like to take you through the progress we have made specifically in 2004. So let's start with the key financial highlights. We have on the slides both Sterling and Rand.

Adjusted operating earnings at just short of £1 billion have increased by 47% due to good contributions from all businesses, none more so than Nedcor, where the recovery is underway. This converts into an EPS up 53% in Sterling and 46% in Rand.

The difference in operating profit growth and the percentage increase in EPS is due to our tax charge which has returned to our normalised effective rate, the rate that we would expect each year of 25%. Operating Earnings have recovered to this amount primarily as a result of the improved profitability of Nedcor. The operating return on embedded value is up 19.4% following good growth in earnings and the increase in Nedcor and M&F's share price.

All elements of the group's business performed well with South African profits increasing by 44% to £799 million, following double digit growth at OMSA and Mutual & Federal, and a substantial turnaround in the results of Nedcor. The US profits grew by 23% in Dollars or 11% in Sterling to £185 million, with a strong contribution from both the US businesses. The UK and Rest of the World profits increased by 163% as a result of the improving performance of the UK businesses.

So let's move on to look at the businesses by geography starting in South Africa with OMSA.

S.A. Life operating profit increased by 15% to 3.7 billion Rand. Whilst charges on assets benefited from a corresponding increase in average life funds, assumption changes, predominantly relating to favourable mortality experience, contributed 168 million Rand to profit. The long-term investment return at 1.97 billion Rand declined by 10% reflecting a reduction in average shareholder assets due to the 2.6 billion Rand participation in the Nedcor rights issue and the 0.6 billion Rand net impact of our additional stake in Mutual & Federal. This, of course, reflects the special dividend that we took out of Mutual & Federal post the acquisition of the Royal Sun Alliance stake. Both of these financings came from OMSA's existing financial resources. An increase in the cash component of the portfolio coupled with lower interest rates on cash and bonds also had the impact of reducing the overall return.

Asset management profits were down 2%. The underlying increase in profits due to higher average funds under management was offset by charges relating to the treatment of the staff incentive arrangements which changed in 2003 and also lower trading profit in the unit trust company, resulting from change in industry guidelines regarding trading in units, and also to the development of the administration infrastructure.

The Life return on capital increased to 26% as a result of the increase in Life profits and a decrease in capital requirements due to an increase in the cash component of the assets backing the capital requirements. As you can see we did move some equities into cash in the portfolio during the year.

Operating return on embedded value increased to 20% on the back of the positive experience variances, particularly mortality profits. Although profit growth as we have seen is strong, the sales result has been mixed, as Jim noted. You should note that in sales we have included the sales by Old Mutual International, who sell mostly to South Africans, to provide an overall picture of South African sales. I hope this isn't confusing. For profit purposes OMI is still shown in the Rest of the World segment.

While gross sales of unit trusts have grown by 52%, individual business sales were up 1%, with group business sales very disappointing down 48%. In the appendices on slides 39 to 41 you will see I have broken the sales down for the first time into major product lines. Although individual business overall was up 1%, single premiums were up 16%, with an immediate annuity single premium showing strong growth due to a decision to re-price this product.

Recurring premiums were down 4%. The recurring premium problem was in the broker distribution channel where sales in that channel were down 20%. In the final quarter individual premium volumes were up on the run rate for the first three quarters, which was pleasing.

The low level of group business sales continued throughout 2004 with sales down 48%. Single premium sales were particularly affected by the absence of any large with-profit annuity schemes where trustees are taking longer to decide whether to purchase annuities for pensioners. There also has been a decline in demand for smooth bonus profit savings products due to the low level of bonus rates in recent years, triggered by the decline in equity markets in 2002. Fortunately rates are beginning to rise again.

Although there is still a significant pipeline for single premium annuity business and post-retirement medical aid, we remain cautious about the pick-up of sales in 2005.

On margins, individual business margin increased to 24%. This is a combination of operating and economic assumption changes which increased the value of the in-force business and also had an equivalent positive impact on the value of new business. The group business margin declined to 25% due to a much lower proportion of higher margin with-profit annuity business.

So what action have we been taking to boost sales?

We are constantly looking at better value products for clients. As an example, in November, as Jim said, we were the first to launch an exciting new investment product in the retail market, Max Investments. This looks to provide better value to customers, offer a choice between a life wrapper and a unit trust wrapper, depending on which is more tax efficient for customers, and thirdly, provides a choice between a committed plan that pays up-front commission and a select plan that pays as-and-when commission.

You will have also noted we have refreshed the Greenlight ™ product as well. Another example in employee benefits, where our new administration platform provides increased efficiency and service benefit for admin clients will also help.

In distribution we have been aggressively growing our personal financial advisors, our PFA sales force, which ended a 14% increase over the previous year in head count. Sales from PFA grew as we increased the PFA sales force. As I have said previously, broker produced sales were adversely affected by service problems. These issues have been addressed, and in addition, we have re-organised our broker support division around broker segments. The Masthead independent broker network continues to boost independent broker relationships. We are now over 2,200 brokers signed up.

On bank assurance we are showing signs of progress and are pleased that the bank assurance sales were up 57% on a gross sales basis. And finally, in the group business area, we have re-aligned our entire corporate sales force to focus attention on improving our corporate clients proposition.

Relative investment performance is a strong driver of saving product sales. And we believe that OMAM's top of the charts performance this year will contribute to an increased sales in 2005. Over 95% of funds managed by OMAM exceeded their benchmark.

We are also making significant progress and expect to be an 'A' rated company under the FSC Charter. We look forward to deriving value from our initiatives in this field.

And finally, on profitability, OMSA has produced excellent profit growth as we have seen and margins over the past five years. But we do acknowledge that sales growth is the key to profit growth in years to come. We therefore have, as you can see, a strong focus on sales growth in 2005.

So let's move from OMSA on to Nedcor. In 2004 we focused on restoring Nedcor's financial position, reducing substantially the risk profile and building the platform for the future. A successful rights issue strengthened Nedcor's capital base and at the year end Tier 1 capital was 8.1% exceeding the target that Jim had talked about of 7.5%.

Nedcor's management also came into line with a number of Old Mutual's operating standards. For example, we bought in an improved reporting process introducing quarterly business reviews. The Bank strategy process is now aligned with Old Mutual's strategy process. A new executive team was appointed. The adoption of a revised risk management framework which covers risk appetite, risk policies and procedures, and amongst other things, the adoption of the group-wide values.

Driven by Tom Boardman and his executive team a three year recovery plan was implemented, the first year of which has been completed successfully. And we are pleased that they have hit our agreed milestones.

So what are these milestones that were hit? Adjusted operating profit…..adjusted operating earnings of 2.4 billion Rand showed a substantial turnaround. Net interest income increased by 11%, with net interest margin improving to 3.13%, non-interest revenue also increasing by 3% to 8.2 billion Rand. The level of expenses are still an issue and the cost/income ratio at 74.5% still needs considerable work. The impact of the restructuring programme and the expected growth in revenue is targeted to improve this rate.

In building for the future there is still a lot to do to get to the 20% ROE in 2007. The following key steps have been identified.

Firstly, asset growth. The aim is to maintain market share from the second half of 2005. As most people have said, this is quite a challenge. The challenge is particularly in the retail area where market share was lost in credit cards and home loans.

Secondly expense growth will be held at 9% below income growth on an annual compound basis through operating efficiencies. It's accepted that to return to an acceptable level of a cost/income ratio which we have targeted at 55%, higher revenue has to be combined with much lower expense growth.

A focus as well on transaction revenues, the improving computer infrastructure will allow a more complete transaction banking service to corporates. As an example OMSA's transaction banking will soon be transferred and handled by Nedcor.

Nedbank retail aims to rebuild its market share, improve its cost/income ratio and also therefore improve its return on equity.

And finally transformation. This business will transform and transformation is being embraced wholeheartedly throughout Nedcor.

Mutual & Federal had another excellent year. Gross premiums on a UK GAAP basis increased by 14% to 7.4 billion Rand, reflecting new business acquired plus corrective action and rating adjustments in unprofitable segments of the business. Operating profit increased by 16% as a result of prudent underwriting, a reduction in claims frequency and severity, partially offset by an increase in expenditure on information technology, as M&F continues its programme of enhancing its data systems.

The strong underwriting ratio was accordingly 7.8%. You will have seen from M&F's announcement in SA GAAP this was 9.8%. A technical accounting difference between the two accountings is due to the different treatment of the contingency reserve.

Return on capital at 24% was well above the target due to strong underwriting performance and helped by the higher investment performance due to the strong JSC. Although conditions remain conducive to underwriting profitability the softer cycle and pressure on rates indicates more normal trading conditions for 2005.

So that's South Africa. Let's move on to the United States.

Both U.S. businesses have produced an excellent result with a 23% growth in profits, taking their combined contribution to $337 million. Let's look at the Life business first.

Our US Life business continues to deliver strong sales growth with total annual premium equivalent (APE) increasing 29% to $501 million, taking the company over $500 million sales for the first time in its history. The after-tax value of new business is increased by an impressive 92%, with new business margins up to 23%.

The biggest factors in this improvement in margins were movements in interest rates and bond returns. In 2004 bond selection in particular where we had no defaults during the year helped us to exceed our pricing assumptions and we were able to write new business at this very healthy 23% margin. Product mix also played its part in this improvement in margin, with a higher proportion of sales coming from the more profitable off-shore and equity index annuity products.

We have now firmly established ourselves as a number two provider both for equity index annuities and regular premium term life products through broker distribution. Now that the Life business has reached a greater level of maturity our aim for the future is to continue sales growth but at a more moderate rate than in recent years.

The strong sales figures over the last two years have helped the business mature, such that the strain of writing new business is covered to an ever-increasing extent by the profits generating by the existing book. This has helped operating profits grow by a healthy 25% to $174 million with a consequential increase in return on equity to 8.4%. The strong sales result also helped assets under management grow by 30% to $17.3 billion, not far short of this target of $20 billion that we have talked about in the past.

Embedded value increased by $450 million. Within this growth $300 million derives from capital injected into the business. The return on embedded value dropped to 9.7% due largely to the impact of a repatriation of a portfolio of captive re-insurance business which I will come onto on the next slide.

Towards the end of 2004 we decided to increase the target level of risk based capital supporting our life business from 265% to 300%. You may recall that when we bought this business in 2001 the RBC on the business was 225%. This increase to 300% was designed to maintain our target ratings with the main rating agencies thus protecting our sales volumes and demonstrating our commitment to, and our confidence in, this US business.

Also towards the end of the year we took the decision to repatriate a $2.5 billion block of deferred annuity business back to F&G our main US Life company. The re-assurance of this business to our Dublin captive made sense when it was effected, but was no longer considered capital efficient in a different regulatory environment. The impact of this re-arrangement was a reduction of $39 million in embedded value, thus reducing our embedded value return, and a one-off hit of $43 million to statutory profit. But for this we would have recorded our second year of statutory profit.

As I said earlier the business is maturing nicely with profits from the in-force book being able to support to an increasing extent the strains of writing new business. We therefore expect capital injections to be below $100 million in 2005 reducing further in 2006 with the aim that dividends will be starting to flow from this business back to shareholders in 2007 as planned.

US Asset Management. The group's US asset management business delivered another year of strong operating results, with operating profits up 22% to $163 million. Funds under management increased 20% to $185 billion. Robust equity markets contributed 12% of this growth, while net inflows of client assets contributed $12.3 billion. This makes our fourth consecutive year of positive net inflows of client assets to member firms.

These inflows are an acknowledgement to the strong investment performance maintained at our member firms. As at 31st December 72% and 95% of assets were outperforming their benchmarks over a three and five years. Over the same period 61% and 73% of assets ranked in the first quartile of their peer group, something we are very happy about.

Total revenue was positively impacted by the 21% increase in average funds under management.

Offsetting this increase, however, were several new expenses. Most notable was the significant cost of investing in our retail initiative and the cost of converting the Dwight Stable Value Fund which combined cost us $13 million in P&L terms. In addition we have a charge for deferred compensation for staff of $9 million in respect of six of the affiliates acquired in the UAM acquisition in 2000. Profit growth in these businesses has now passed the threshold for payments to be made under this scheme which runs until 2007.

The impact of these increases in expenses are a more modest growth in operating margin to 24.3%. Looking forward to 2005 we expect the growth in operating margin to be restrained by the ongoing cost of the retail initiative, which we expect to be around $15 million, also certain initiatives, which I will cover in a moment, and to fund further anticipated deferred consideration payments.

The asset management group today is made up of 19 high quality boutique firms. You will recall in 2000 when we bought the business it was 42 firms. The diversity of the firms enables complete asset and style coverage. In 2004 we launched Old Mutual Capital, the retail initiative we have talked about, based out of Denver, which offers financial advisors a sophisticated institutional calibre investment product that takes full advantage of the wide range of investment capabilities of our member firms. To successfully maintain our product leadership we are constantly reviewing the components of our businesses.

In line with this strategy we have reached agreement with the principals of one of our remaining revenue share firms, First Pacific Advisors, under which they have an option to acquire certain of the firm's assets and liabilities with effect from October 2006. At the end of 2004 we also decided to shut down loss making Sirach. The firm, predominantly a growth equity style manager, has been in decline since the market crash in 2000.

At the November trading statement we commented that two areas where we were considering augmenting our investment capabilities were in the alternative asset and growth equity style capabilities. As Jim mentioned we have signed term sheets to supplement our small cap growth capability and we are also close to finalising the negotiation to enter the alternative asset class. Both these initiatives have a small up-front cost that will be a drain on profits in 2005 of approximately $10 million.

Our asset management business is delivering extremely well and we plan to grow it aggressively. Over the next five years our aim is to increase the retail proportion of assets to around 30% of assets. We are excited with our portfolio of businesses, the new initiatives we have got going, including Old Mutual Capital. And we believe that these initiatives will contribute greatly to reaching this 30% target.

Let's move on to the UK and Rest of the World. The profits here have grown by 163% to £42 million. The improving performance of Selestia and our asset management company in the UK has accounted for around £10 million of that improvement.

Selestia had positive gross sales of £423 million raising assets under management after only its second full year of existence to £730 million, bringing it closer to profitability.

OMAM UK now has £3.4 billion of funds under management. The increase in higher margin third party assets were offset by a further reduction in unit trusts held by Gerard clients following their business sale to Barclays. The net effect is the funds we are growing are higher margin products than the unit trusts that we are losing. So that has increased profitability although assets under management has stayed relatively flat. That concludes the review of the UK and Rest of the World.

I would now like to mention a couple of things on our group financial position.

Firstly on debt and borrowings. You can see from the chart that our average debt maturity profile is well balanced between short and long term funding. And following a negotiated £1.1 billion five year revolving credit facility the group has already in place adequate borrowing limits to cover the repayment of the convertible bond in May 2005 if in fact it doesn't convert. And you will see if you do the calculations it's moving closer to conversion but it's still not there. And therefore we don't know whether it will convert or not.

In order to improve our capital structure which we look at the whole time, as credit spreads have also been improving over the last year, we are planning to launch a Sterling Tier 1 security. And this will be announced shortly.

On gearing, the group's gearing level remain favourable, with senior debt gearing at 16.5%, giving the group the required flexibility we desire. Shareholders equity grew 18% to £3.2 billion. Dividend cover at 2.9 times and interest cover has improved to 27 times.

Since 1st January 2005 the group has met the minimum capital resources requirement in accordance with the financial group's directive. This is the new legislation introduced by the Financial Services Authority in the UK which looks at the group solvency as opposed to the solvency in each individual subsidiary. And it applies to all major UK based financial businesses.

We are now developing a group-wide economic capital programme. Once completed it will improve the group's ability to measure risk and business performance. Early results are highly encouraging. And it is showing that we have available financial resources well above the targeted rating that we have.

Finally, we are almost at the end of changing our basis of accounting onto IFRS. We have planned to take you through the impact on the group, looking specifically at the changes in 2003 and 2004, on 3rd May when we will have a separate session. Unlike most of our peer group we have negative impact on pension costs as either our schemes are in surplus or our businesses only have defined contribution schemes. This is a significant issue for most European firms.

On 20th June, another date for the diary, we will be taking you through the impact of European embedded value, which we will be adopting at the half year. Again the firms in….the financial services firms, like companies in Europe, have looked at refining embedded value, and most firms will be adopting this from the half year. And so to look at the changes we will be going through that at the half year. We are spending a lot of time making sure our methodology, particularly on the risk discount rate, is fair and understandable.

So, in summary, we are making good progress in each of our businesses. And where there are issues as you can see we are tackling them aggressively. We have a robust financial position and our performance in 2004 demonstrates we have a platform for sustainable growth. Thank you.

Jim Sutcliffe

I would like to turn now to the future. Our strategy hasn't changed. We are using our high quality and powerful South African base to create an international…..a world class, international financial services company. And we are now well on our way.

You can see from the previous slide that over half our Life sales and nearly three quarters of our asset management clients are now in the USA and the UK. Our core industry is money management. We provide high quality investment skills to build and protect our client assets. These skills are wrapped into many different products. In South Africa, of course, we are a life insurance company. We do unit trust products. We have institutional asset management clients. And of course we have a bank.

This is a path that a number of our European peers have trodden with good effect. But we hope to do so in a fashion that takes best advantage of our particular skills, and at the same time learn from their experience. We are a bit smaller. And we are, therefore, a bit more agile. And that allows us to be more selective in choosing the markets that we participate in. And, unlike some of our competitors, we have set up our business to remain focussed, to keep with their specialities, to enable them to serve better their clients.

So we are both ready and able to act on market opportunities for the benefit of both our clients and our shareholders.

And in each of those markets we have some fairly defined priorities on the slide. Starting at the bottom of the slide with our smallest business, our capabilities in the UK, which are high quality asset management on the one side, and leading-edge fund supermarket skills on the other side, are now well established. And our organic priority is to take advantage of the skills in that base we have created.

So, for example, in Selestia, we re-priced our re-registration offering at the beginning of the year, to open up another large stream of business.

And, in India, on the strategic side, where we now have over 40 branches and China where we have a representative office, we have fledgling businesses under development for the long term. And, as you know, in the United Kingdom we remain alert for step change opportunities.

Moving up the slide, in the United States, in the asset management business, our number one priority will always be the continuation, as Julian has outlined, of benchmark-beating investment performance. That's what we do for our clients first and foremost. But building that load fund retail platform, taking advantage of the start that we have made of late last year and earlier this year, is a top organic priority.

And adding those affiliates that Julian has gone through, and making sure they grow into healthy members of our family, to take advantage of any return to popularity of growth style investing, and the huge flow of funds into absolute return products, those two things are at the top of our strategic agenda.

On the last slide, our operational priority, as Julian has indicated, is to find those waves of business that offer good ROE, and to move to those waves faster than the opposition, faster than the competitors. And we are committed to growing at the level that will produce a dividend for ourselves and hence for our shareholders in 2007.

In South Africa M&F is investing in better data management systems and claims handling procedures to enable it to underwrite more accurately as downward pressure on rates that we expect in the cycle increases. And we aim to produce a 4% underwriting result through the cycle.

As Julian has outlined, we have agreed a clear five point plan for Nedcor, as it pursues its overall strategy as a full-service South African bank. Organically we will focus on maintaining our market share of assets from the second half of this year. We do aim, as Julian has said, to keep our costs on average 9% below the growth in revenue. And building the retail franchise and those transactional capabilities are our two most strategic goals.

Black economic empowerment, or BEE, is a key imperative in all three South African businesses. And I will say just a little more about that in a minute.

In OMSA it is all about attracting more customers. We will do this of course by maintaining the standards of our investment performance. That always sits at the heart of what we are doing. We will continue to improve the quality of the product in the way that Julian outlined earlier. But most importantly it's about building our distribution capability, building our ability to have a great sales advantage over our competitors. We will build our direct sales forces, both our agency force PFA and our group schemes sales force. We will build our intermediated sales relationships, both group and individual, and our bank assurance capability.

Overall our path is clear. But of course we need to know how fast we are travelling, to know whether we are doing the job well or not. And it is often said to me that our business is complicated. And in fact the vast bulk of our profits come through a simple formula, assets times the margin, minus expenses equals profit.

There are other things. We do insurance. But that thing drives the heart of Old Mutual's profits. And what we have been doing is gradually refining the metrics against which we measure the business. And they are shown on the slide. And you can see there is a great deal of commonality.

The key drivers of EPS, ROE, Return on Assets and Return on Embedded Value have been embedded into management performance contracts, and the quarterly business review processes we run with all our businesses. We are always refining this approach but I think it is increasingly effective. Julian has covered most of these for our business units today, and we will refer back to them as we report to you in the future.

Turning to BEE. BEE is eminent good sense….good business sense. It creates our future customer base. And it is therefore something, as Julian said, that we embrace wholeheartedly, not just at Nedcor, but at OMSA and indeed at M&F, and for Old Mutual as a whole.

BEE is a key part of the development of South Africa for the future, and we need to be at the forefront of those developments. We will grow faster in future in South Africa with a BEE deal in place, and the market in which we participate, that South African market, will grow faster with all South Africans involved in the economy in full.

As we have said we are therefore working hard to complete our BEE ownership plans, and we expect to be able to make a firm announcement soon. We do intend, as we have said before, to announce a comprehensive arrangement covering all three subsidiary operations.

Our plans aim to ensure that we benefit from the full talents of all South Africans. First, from our staff. After all they are the major source of value creation for our shareholders and good service to our customers. But we will also leverage strategic partners to add value and to accelerate transformation, to allow us to gather business in key markets. And we do intend to negotiate arrangements that incentivise our partners in this direction, as well as our staff.

Of course we are already attending to many other aspects of BEE, training and development, procurement, and our management ranks are increasingly representative. Crucially we are a market leader in BEE funding. We have something like 5.4 billion Rand invested in empowerment financing and about 5 billion Rand invested in infrastructural development.

We are also pleased to announce today. We have in fact announced today that we have appointed a new independent non-executive director, Professor Wiseman Nkuhlu, who is the Chief Executive of NePAD and we are very pleased that he has made himself available.

Old Mutual is in a very different position today to where it was three years ago. We have sold off a number of non-core businesses, Gerard, those asset management subsidiaries in the US that Julian spoke about. And many difficult problems have been faced and resolved. Seeds are being sown in the UK and India for example that are starting to produce good crops. We have built up our distribution infrastructure in the US. You have seen it in the net cashflow in the asset management business. And our Life business has tripled, both in sales and profits. And we have established common metrics, values and management methodologies around the group.

All in all, as this year's results show, we have built momentum. We have found some attractive growth markets to participate in. The head of steam that has driven us onward in 2004 does have the power to take us much further. We aren't finished by any stretch. And we continue to fuel the engine in the US, the UK and in South Africa, to maintain our progress.

In fact the strength of the platform that we have created means that we are confident that organic progress alone will make our profits grow well. And our steep rates of growth now established in the US will ensure that the international diversity of the group will expand by organic means alone. But our appetite and our ambition remain exactly the same. We are here to create a world class international financial services company. But we do so in order to create value not for its own sake. So we have a disciplined approach to acquisitions.

We have many alternative remunerative ways to deploy our capital. We can do so organically in our international operations as you have seen. So looking forward, consistently producing those high returns on equity, high returns on assets and returns on embedded value, and growing the base from which those returns are derived is our key priority. We won't be rushed into acquisitions at prices that do not provide adequate returns or demand gearing and gearing ratios that threaten the ratings we need in the US in particular.

But as I have said, we continue to be ambitious. Our goals haven't changed. So we will take those step change opportunities as and when they arise.

So ladies and gentlemen we look back on 2004 pleased, but not satisfied. We are pleased, of course, that our earnings are sharply up. We are pleased that our return on equity is as high as 19%, that our embedded value is up 33% at 15 Rand and some change or 139 pence. I think that these results do show that we now have an international platform from which we can deliver our shareholders to plot profitable growth.

But we are not satisfied, because there is much more to do. We have got a BEE deal to deliver. We must resume our sales growth in OMSA. We are going to ensure that Nedcor returns to the performance expected of one of the country's strongest banking franchises. And while we have got a great business in the US, we have created a footprint that we can use for the future, but the untapped potential there remains enormous.

And as we start 2005, as you have seen, our organic and strategic priorities are clear. The metrics by which we shall measure our progress are set. Our management team remains ambitious, both to leverage the platform that we have created, and to find further opportunities for sustainable growth. 2004 was an excellent year for Old Mutual, and we enter 2005 with confidence.

That is the end of our presentation this morning. We will, now take questions.

Greg Patterson, KBW

I assume you mean two people asking questions. I have got four questions. Outflows in South Africa increased from 4 billion to 9 billion. There is a school of thought that says that all your volumes are a function of churn and that there is a trend to unbundled products universal life into risk and savings. If you have got any comments in that regard, that would be interesting. The second thing is, you have increasing sales in South Africa through increasing your agents quite dramatically. I was wondering if you had experienced any deterioration in your persistency experience or you expect some deterioration in 2004 due to this major increase in sales numbers. The third question is US margins. In the first half of the year you….I think your comments were, you had 3 percentage points of margins due to trading on equity indexed products, and at that point you had really shifted completely out of fixed annuities. So I was wondering, given that interest rates dropped in the second half of the year, why your margin actually increased. Was it primarily due to change in assumptions? And then finally, black economic empowerment. Word on the street was that you know one would have to give 2-3% away in terms of dilution and we saw Kosatu make, I think the comment was, he felt that your negotiations were insulting, or something like that. What do you see the increase in costs as a function of this new dynamic in terms of when an empowerment deal actually gets done?

Jim Sutcliffe

OK, thanks Greg. And yes, we are comfortable with two people with as many questions as you like. First of all, on the net cashflow, I think you have got the numbers in the back, which I guess you were reading to provoke the question. I think you will see that the primary issue on the net cashflow is on the employee benefits side.. But the basic issue is that with low single premiums on the employee benefits side and slightly higher outflow you get a big net negative.

Now some of that money does go over into OMAM and OMAM's number was pretty positive last year. So there is some offset to that. But I think the idea that the cashflow position is created by churn, I really don't think is right. That's not the answer. Julian I am going to come to you and I think to Roddy on the agent persistency question, but let me just deal with third and fourth points first. US margins versus the first half: Julian outlined that the primary reason for the increase in margins in the second half was on the investment side. So certainly we got some mixed advantage which carried on into the second half. We have actually also changed our process a little bit. You will have heard us talk in the past about a six week gap between pricing and selling, and we have started to hedge forward some of that gap. You then get exposed to needing to make the sales of course, but that has also changed things a little.

Guy Barker

Particularly the hedged effect on interest rates, that we are hedged when it goes against us, and we take advantage when it goes for us, works well for us.

Jim Sutcliffe

So there has been a change in our operating procedure. On BEE, what we would observe is that the ….by looking at the Stanbic deal and so on and so forth that the dilution amounts to something like 3-4% of the value of the South African assets, and that's the range that we have been telling our shareholders over the last while that we expect to be in.

Roddy Sparks

Greg, agent persistency, I am happy with the quality of the agents that we have brought in. In fact we have brought in quite a few experienced agents or whole teams of agents in fact from some other underwriters, other insurance companies. And the persistency of the new agents is in line with what one would have expected.

Mick O'Shea, Fox Pitt

A couple of questions, first of all, you said the US business is going to repatriate cash from '07 onwards. In order for it do that, could you just tell us what sort of growth rates you have accrued in there from '07 onwards for that to happen. And we have seen a huge amount of earnings coming out, in terms of earnings growth from South Africa. Now one of your goals was to actually diversify your earnings away from South Africa, if you could comment on that. And then finally, this muted acquisition in the UK, I mean are you talking to anybody at the moment and what is your strategy there.

Jim Sutcliffe

I will just deal with the third one first. We don't comment on individual business so you wouldn't expect me to say anything more than that. We do have an active programme. As I said at the beginning, John Deane is here. He is very much to the fore in that. And so we continue to look, but I think I have also explained the relationship between the way we view organic and acquisitive activity and our determination to stick to the pricing parameters that we have outlined.

South African earnings, and if South African earnings grow fast, doesn't that worry us about the diversity. Well I think the first thing I feel is that if earnings grow fast I feel pretty good about it. So that's point one. Point two. I think the US earnings have also grown pretty quickly in Dollars. So I think that we have seen strong growth on both sides. I think my point of view is that our strategy is built on the idea that you have more than one business internationally in order to provide you with diversity against those things. And a lot of these trends have a habit of being cycles that sort of come around and go around. So I am relatively relaxed that we will get to where we want to get to and take a slightly longer term view than worrying about whether one year or the other the exchange rates move in any particular direction.

On the US cash returning in 2007, I think the question was, what rates of growth are implicit in that, perhaps up to and beyond 2007. What we have said is that our intent is to have premiums in the range $2.5 - $4 billion. We are not seeking to grow sales year in year out there, and so there is ….the 2007 cash commitment is based on that idea, that we pick off these waves of business as they come through, rather than we try and double premiums again.

So you know there is another decision to be made. At some point out there if we really think that that's a good idea we will come back and tell you. But our point of view right now is that we are growing the assets under management pretty quickly at this rate of sales, so the rate of growth in the business is already large. And the position, as it always has been, is that if the ratio of sales to assets under management goes too high then you get no cash. So implicitly what we are saying here about post 2007 is that that doesn't get high again.

But the reality of it is that on that basis up to 2007 we will be relatively mature then, and we will be able to make a choice about whether we ramp it up again if we have got another good opportunity or whether we simply carry on and use it to draw off cash. I mean I think you can hear by what we are saying about ambition that we kind of will feel inclined to think about it hard, but I think we want to do it on the basis that we don't stop paying dividends after 2007. We will always be judging it very tightly against those financial parameters.

Risto Ketola Deutsche Bank

Two questions. Firstly OMSFIN. Now those profits were down quite heavily. And I just want to ask is that the new base or was last year the proper base to use? I know it's a volatile business in terms of earnings. The second one is the asset mix in South African capital, there is quite a large increase in cash holdings. Now will we see that expand further and will the CAR cover come down as you hold more cash.

Roddy Sparks

On OMSFIN effectively about 150 million Rand was the core profit in both years. So it had a relatively flat year. There are one or two abnormalities.

On your second one around the cash in the portfolio and the potential movements in future. It is something that we look at dynamically all the time. And what we saw in the past year was quite a nice trade-off as we moved a bigger proportion of the shareholder funds into cash in terms of reducing the internal CAR and improving our return on equity. That was probably the single biggest driver to our improving ROE. What we do in future will depend as we look at it and as underlying assumptions and returns are examined. Peter do you want to just pick up on the OMSFIN number.

Peter Goldsworthy

OMSFIN is a business that is very dependent upon credit and as we have seen spreads came in over the last year so profits have been under pressure. It also doesn't help origination and other fee earning activity and those have struggled in the year as well. So the result is somewhat lower than the prior year.

Julian Roberts

If I could just add on the asset mix issue. The audience in the UK will have been very used to over the last few years when you get into a low inflationary environment you can't afford to have the exposure to equities.

You know some of our life companies in the UK have been badly burned. Others who saw that coming and reduced the amount of equities have still had a strong capital position. And therefore it's part of managing the situation here, seeing that it appears that we are coming into a stable lower inflationary environment, and therefore we want to make sure that we have the right mix.

Strategically always that mix will change as there are opportunities coming. But it's really from what we have seen in the UK and coming towards a low inflationary environment means that the equities come down. Can I have another question here.

Johnny Lambridis, Citigroup Smith Barney

Just to pick up on that whole cash issue again. I mean aren't we moving into cash right at the bottom of the cycle. I mean you are getting what 3-4% on cash after tax. And I understand that you have a dividend yield of the same level. So from an ROE perspective maybe moving into cash is OK but from a pure growth perspective and growth in embedded value you are going to get no growth on that cash. So I am just questioning the timing of moving this large amount into cash. Does that also mean that you are perhaps looking at buying out maybe the minority in M&F or you need some more cash to fund the BEE deal as well. Because that cash does look excessive at almost what is it……80% of your CAR at the moment.

Julian Roberts

I think the two comments I would make is, just remember, although it looks extremely good that we have a cover of 3.3 times the capital requirement, remember the new rules are coming in, or have come in now, and that does have the impact of reducing from 3.3 around to…I think it's just under 2.5. So the position won't look quite so strong when we come to next year end.

Yes you will always have an issue of do you bet the market or do you do the thing that you think is prudent and right to manage the business into the future. We, in running this business, take the decision that we want to be here forever in the future, and therefore we will make strategic decisions. The way that the JSC has gone, yes, you could argue maybe the timing wasn't right, but that's how we came to make our decision.

David Nesbitt, Merrill Lynch

Sorry to come back to cashflow for the South African business. But I think one of the worrying figures is the very large increase in the lapses and I wondered whether you felt that the 2004 level was exceptionally high for any reason, and if you are taking any steps trying….to try to manage that figure down. And also perhaps some indication of how you feel that may progress going forward.

Jim Sutcliffe

David, looking at slide 42, I guess that's the one you are looking at. If you look at the changes from '03 to '04 on the out side as opposed to the in side you can see maturities have come down just to pick it off. Annuities, call it the same, for the sake of an argument. And it's the terminations on the group side that are the big number. There is a slightly higher number or you may call that a lot higher number, 5,1 to 6,9 or 7 billion, but the big number is on the EEB side.

There is no doubt on the EEB side we have a very big share of the guaranteed fund market and that market is moving towards segregated fund management over time. It's still a good product, but it's a very big market share in an area that is moving. So I think the issue is mainly the EEB side. But Roddy I don't know if you would like to say any more about that.

Roddy Sparks

. Maybe I can just add. If you look at that table. First of all I think it is pleasing on the individual side. We have turned the corner for the first time in years. We have had a positive cashflow in the life company in the retail business. Obviously we have had a positive cashflow in unit trusts and elsewhere in the past. But this has turned around both through an up tick in premiums as well as through a slight downtick in the actual claims of one form or another. So I think there is some credit there.

The problems do exist in the EEB business and really it's around both last year, not picking up those lumpy single premiums, with the decline from 8.8 to 5 billion, and that really was an absence of a lot of movement in the market generally, as well as through an up tick in terminations.

We had one biggish client, not so much with the termination, there was a maturity of a guaranteed investment contract in December, and that was R1.6 billion. That was a programme maturity of a….I think it was a ten year product that came up. So that wasn't unusual or extraordinary.

And then otherwise there was the normal kind of activity. And remember terminations here includes terminations of members within funds, so it's not necessarily trustee decisions. It can be members departing funds for any reason, resignation, retirement, dismissal and so on, and the ongoing trickle effect in the business. But the business is mature, and we do battle with that maturity.

Jim Sutcliffe

I think David the other thing you find on the individual side, or perhaps on both sides, but particularly on the individual, is that to the extent that the business is unit linked the actual amount of the termination has gone up hugely last year because of the market performance. And so you may not get any more people, even though you get a larger Rand value.

James Pearce, Cassanove

The dividend growth looks pretty mean compared to both the earnings growth and the cover. Could you talk about your dividend policy from here. And secondly could you quantify your capital resources for M&A both in terms of unutilised debt capacity and the surplus that is on the Balance Sheet at the moment.

Jim Sutcliffe

Dividend policy has remained the same since demutualisation, has been to reflect the underlying growth of the business. Now over the last two or three years we have kept the dividend steady as you know, and the dividend increase that we have offered now is really something that takes into account of the catch up in the earnings. So there is that comparison.

Yes, the cover is quite high at 2.9 times. I think we would rather be in the position that we were able to continually increase the dividend, because we have said in our dividend policy our ambition is to provide a steadily increasing pattern. And rather than go overboard and then find in some future year that it might be difficult for some reason, we would rather go steadily. So there is nothing more to it than that to be honest.

Julian Roberts

I have not a great deal to add with what I have said already. You can see from the charts that our gearing is 16.5%. We still believe that the rating agencies are comfortable with that increasing to around the 30% mark. If you do the calculation with the cash and with that flexibility then you are around the 750 million to 1 billion mark. What you also see is we have bank facilities in place on that chart to cover roughly that 1 billion.

Greg Patterson, KBW

Just two questions, how big is this debt issue that you are planning to do. That's the first one. And don't you think it's fair that when you do a debt to equity ratio you are counting the equity of Nedcor but you are not including any corresponding debt. And I know most of the bank's liability structure is of a debt nature, but some of it is to do with financing. What would the number be once you include the Nedcor call it financing kind of debt.

Julian Roberts

The first think is I don't have at my fingertips the gearing ratio if you did include the Nedcor debt. We have adopted a methodology for our gearing ratio that other groups use when they have a banking group included. So if you again look in Europe that's why we use our methodology that we have got. And it is quite clear and one that the rating agencies are very comfortable with.

The second one, the targeted range will be around the £200 million for the Tier 1. Naturally if it is heavily over subscribed we might ….we might take more, but we are looking around the £200 million.

END.