Results for the nine months ended 30 September 2006

Old Mutual Plc

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Speaker

Jim Sutcliffe, CEO

Operator: Thank you for standing by and welcome to the Old Mutual Quarter Three conference call. At this time, all participants are in a listen-only mode. There will be a presentation followed by a question and answer session, at which time if you wish to ask a question you will need to press *1 on your telephone. I must advise you that this conference is being recorded today, Tuesday 28th November 2006. I would now like to hand the conference over to your speaker today, Jim Sutcliffe. Please go ahead, sir.

Jim Sutcliffe: Thank you very much and good morning, everybody. Welcome to the call. As I think you all know, this is the first time that we, at Old Mutual, have reported quarterly numbers, and so I would like to draw your attention to the basis of what you are seeing and indeed what you have got in the pack, that no doubt you have already received.

Sales and trading information are compared with the prior year to date, with Skandia included on a pro forma basis for eight months of data. The profit mainly compared with the half-year results; we haven't Q3 for the last year to show you, and the quarterly comparatives, with Skandia have been included from February. And then, from the first quarter of next year we go on to a full quarterly with all the comparatives.

So straight on to the results, which I think show steady progress and certainly, Old Mutual continuing its path of internationalisation and building its businesses around the world. And I think that the underlying growth in particular, shown well both through the life insurance sales being up 7% but, more importantly, the unit trust sales up 60%.

Now at the end of the day, we at Old Mutual think sales are important, but there is a simple profit algorithm that goes through the business – the assets times the margin minus expenses – and assets come from net cash flows, and so we were particularly pleased to see net client cash flows of £14.7 billion for the period. So a very strong performance.

Funds under management grew strongly and reached £222 billion. The embedded value per share was 140.7p at 30th September, and our estimate today is about 154p.

Value of new business, at 167 million, is exactly in line with the results shown at the half-year stage.

IFRS earnings, at 11.5p for the nine months, are a little bit lower than the run rate in the first half of the year, with various currency movements, rand and dollar affecting the answer, and some historical adjustments to our South African business being the primary reasons.

Group capital position remains strong, with something like £1 billion of FGD surplus, and our cash flow supports the rates of dividend that we talked about at the half year.

Crucially, and our key objective at the moment, is to make sure that Skandia lands well and we are still well ahead of our expectations for 2008 for Skandia.

Turning now to the individual businesses, in South Africa, we have got a new team in place under Paul Hanratty, and the business is going through a big structural change to move away from the capital-intensive life insurance world into the more capital-light unit trust world, and throughout that, we have been able to maintain the 20% return on equity that has been the hallmark of this business over the period, in the past. In South Africa at the moment, there is a strong economy and a booming stock market, which is a positive backdrop for our businesses. And we are midway through a project to reduce our back-office expenses, as well the changes in the product structure, and that has enabled us to make our administration costs in this period roughly at the same level as prior periods, so no inflation at all in those.

Earnings are likely to be flat in the medium term as we move from the high-capital high-charge world into the lower-capital world but, as I say, not at the expense of returning equity.

Crucially, on the sales side, over the last couple of years, we have been spending a lot of time and effort in building out our retail distribution system, and we regained top spot in the market, with a 17% increase in retail life sales, and at margins that have continued to be within our target range in the high teens – about 15% in fact. And VNB for the third quarter, at R173 million, was ahead of the run rate for the first two quarters, and unit trust sales have grown by 26% year-over-year to just under R3 billion.

Third quarter net cash flow was a little lower on the investment management side because our investment performance hadn't been as strong. We are, as you know, introducing a multi-boutique style to take advantage of the expertise we have got from our US businesses and introduce that into South Africa.

Funds under management, as I say, assets times the margin minus expenses is the crucial building block, so funds under management are the base for whatever we might get in the future, and funds under management are up 13% to R440 billion since the beginningof the year.

The overall earnings were affected by an adjustment – this is IFRS earnings – were affected by an adjustment of R276 million, which was correcting some historical administration errors and indeed the heavy distribution expenditure and the IFRS 2 costs have also held back margins in the period.

Turning to Nedbank, as you will have seen last week, Nedbank continues to perform well. You know, we put our support into that business back in 2004 and I think that our confidence in this important subsidiary is now being rewarded. The ROE reached 18.6% for the first nine months of 2006 and we are well on track to meet our 2007 commitment of 20%.

On the property casualty side, Mutual & Federal, as ever, is a cyclical business but had a combined ratio of about 96% in the period, which is think is a very solid result. Certainly, the cash that that business produced, we got a special dividend of about a billion and a half rand in the quarter from M&F, and that is just a sign of how strong and how strong a cash producer that business is.

Turning to the United States, where we have excellent performance, investment performance of our asset managers. We have had a new high, a new record high of 91% of the assets that we manage on behalf of our institutional customers exceeding their benchmarks on a three-year look. And you know, we have never had a number lower than 75% over the last four or five years, so consistently good investment performance there.

And that has lifted the net inflows. Net inflows for the nine months in this business alone: $19 billion – a huge number. And funds under management, despite the sales of eSec and FPA during the period, rose to $237 billion.

Since the end of September, we have also acquired Ashfield, a San Francisco-based growth manager. Ashfield has an excellent performance record and, along with CopperRock that we started last year, they have given us new impetus in the growth manager area as the market no doubt changes into favouring that area in the future.

Mutual fund sales – you know we started this business back in October 2004, and mutual fund sales for the first nine months totalled $944 million, so a significant impact there as well.

Overall operating margin in 2006 has been something like 26%, which is a very solid performance, about the same as the previous period.

US Life - earnings continued to grow steadily. We are well on track to exceed the 2005 full year earnings number. Sales - we are aiming at the $4 billion target; and net client cash flow is well on track. Margins are at the high end of our expectations, as good investment performance comes through here too. We are in the face of a downward sloping yield curve, which makes our traditional fixed interest product less attractive, and that has also led to higher surrenders of the MYGAs than we originally assumed, and we have made some adjustments in that respect which have had a $20 million impact pre-tax in the quarter.

In the United Kingdom, the business is really on a strong growth trajectory. We have had an excellent quarter here. The Skandia and Selestia, indeed before that open architecture platform, has really done well, and you will have seen that Skandia was voted Company of the Year by the IFA community earlier in the week.

Life sales in the UK – so UK only – were up 59% on prior year, with 123% growth in pension sales, so a huge rate of growth in sales. What we call the UK business includes the offshore business, and sales there were flatter, so the overall sales increase is 27%. So 59% in the UK.

And mutual fund sales where, crucially, Selestia plays a big part were up 67% to nearly £1.7 billion or £1,668 million for the eight months to 30th September '06.

So huge rates of growth of sales, and crucially, I think, in the game that we play against our competitors, we are getting significant net cash flow. We had £1.4 billion net cash flow in the quarter alone, which brought the total for the year to date to £3.1 billion, so that means that is a run rate of something like an 18% increase in funds under management from net fund inflows alone which, as you will know, is way higher than the industry averages.

Life margins at a product level were constant. Some of these sales were of a particular type where we have very little capital. We are pricing to an ROE basis, so there's some low margin sales in the mix but, product by product, the margins are about the same as the first half of the year and we have now got the processes underway that we talked about on June 20th, to make sure that we do move the margin into the target range of 11-12% from mid-2008.

So overall, adjusted operating profit for the UK business increased to £96 million. We didn't benefit from the favourable tax movements in the third quarter as we had in the second, but clearly profits growing very substantially there over previous years.

Nordic business is a very strong franchise. We did see lower sales in the quarter but also lower surrenders, so we have continued to see good net client cash flow. The single premium sales were held back as the cycle of Kapitalpension sales came to an end and the market awaited the arrival of the new ITP agreement. That's a collective agreement for corporate pension savings for white-collar workers. Margins of 27% still well above our long-term expectations of 22-25% and funds under management increased to over SEK100 billion for the first time, up 6% from 31st December. The adjusted operating profit did reflect the change to the methodology of calculating the LTIR, where the half year results was overstated by that and we are about SEK135 million lower under the revised methodology in the third quarter. We are starting a lot of work on our key systems in the Nordic business, to make sure that we have got the products and services that we need to compete, and we are engaged in discussions with Skandia Liv to put that relationship on a robust basis for the future.

Across the rest of Europe and Latin America, this is below quarter for those businesses because of the August habits around Europe of taking the month off, but we nevertheless made excellent progress with a net cash flow of €1.4 billion, both life and unit trusts and we saw particularly good growth in Poland, as in the first half and Colombia, whereas many of you will know Skandia has had a long-standing and successful business.

Funds under management grew by 18% to €13 billion, and much of that happened in the third quarter, as the fund inflows for the quarter were €0.4 billion. Operating profit increased to €28 million for the eight months.

And then lastly Asia, we acquired Intech in Australia to complement our existing fund platform, I'm sorry to call Australia Asia but if we count it over there, and we expect that business to make a good contribution in the future. But the big news is of course India and China, and we continue to see sales more than doubling at an annual rate and I'd expect to see that business being the biggest single contributor of life sales within the current planning round. So huge growth over there as well.

So four messages that I can give you at the end. Number 1, underlying growth as represented by £14.7 billion net cash flow, very strong. Number 2, embedded value. Embedded value very much on track with where we were at the half year. Number 3, IFRS earnings, a bit light of where we'd like to be with some historic adjustments and currency affecting the answer. And number 4, Skandia is still right ahead of our expectations.

With that I'll stop and be happy to take questions.

Operator: We will now begin the question and answer session. If you wish to ask a question please press *1 on your telephone and wait for your name to be announced. If you wish to cancel your request, please press the # key. The first question comes from Greig Paterson from KBW. Please ask your question.

Greig Paterson: Morning Jim.

Just three questions. One is, in the US, it's the second time you have had to strengthen reserves because of rising rates and surrenders, and you also mentioned that you had worse immediate annuity and mortality. For the latter can we expect the reserve strengthening coming at the end of the year and have we seen the last of the increases for surrenders? That was the first question. So it's US, are we going to see further provisions? In terms of funds under management, Nordic and ELAM and the others were flat over the quarter, and if I'm not mistaken equity markets are up, does that means you're experiencing net outflows there? I mean your comments sort of said not, but when I look at the funds under management flat. And the third thing is the UK, Nordic, ELAM, South Africa, at least versus my expectations, all the margins were below expectations and in the UK and Nordic they were particularly lower than expectations. Are you saying that's all to do with mix effect or – I think your comments were that the product level you weren't seeing pressure? Is there any competitive pressure at the product level there?

Jim Sutcliffe: Yes, thanks. Sorry Greig, was there more?

Greig Paterson: And maybe you want to talk to embedded value there as well, whether we are going to see an embedded value here to the end of the year for that in the US.

Jim Sutcliffe: Sure. Greig, let's just deal with them in that order. First of all the reserve strengthening. I think it is the second, as you said, and obviously nobody likes to do that. But I think that what we have said at the half year was the MYGA in particular, the rates have lapsed that we were going to experience, was a bit of a mislead but we didn't have any great experience and I think that what we have seen there is a downward sloping yield curve and what's going on is really that the appeal of the product in a downward sloping yield curve goes down. So you know we have put through what we think is, all the reserve that's necessary. I don't think that this reflects on the controls in the business or anything like that. It's all quite straight forward and the kind of adjustments that have happened in that kind of world. But what we have done is we have increased the return that we are going to offer to these customers and that thins down the margins going forward. It's still going to meet our 12% hurdles but that lower margin is what's coming through with that reserve strengthening.

On the annuity and mortality, what we have done already Greig in the embedded value numbers, is we have already made the embedded value adjustments in there. So there isn't anything more that we expect to do at the year end. Obviously these things are always under review but we have already made an adjustment in EV,clearly we haven't got embedded value earnings numbers yet but you'll see that come through in EV earnings**.**

Jim Sutcliffe: But it is already in the embedded value. So that business, you know I think people worry about it, but I what I've tried to point out is that it continues to make 1% of assets year-in year-out, and there are little bits of adjustments up and down, but by and large that business is continuing along the path that's always continued on. And so I'm quite comfortable that the business is in good shape.

I think that our sales resources, I look at them month by month, have reflected their competitiveness in the market and you know we are selling at bigger margins than we have ever sold. So you know there are bumps obviously in the road, but I think we are in good shape there.

On the funds under management, I'll have to get Malcolm just to check but I've given you the net cash flow numbers. It could just be the currency. The funds under management for Nordic went from SEK99 billion at the end of the first half to 101 at the end of the third quarter. So I mean, maybe you're calling that flat but it's up, and I know that the funds under management in ELAM, when we call it €13 billion, I mean the numbers in rounding them, I think it was actually 12.7 or something at the end of the half and it's 13.4 or something now. So I don't think that's a problem and I think the seasonality of the inflow has also altered the answer slightly. So I'm comfortable with funds under management heading up in the right direction there.

On the margins, let's just go through it country by country. I think you had UK, Nordic, ELAM and South Africa, Greig if I've listed that properly.

Greig Paterson: It was the UK and the Nordic were particularly below my expectations, the other two were just lighter, so I was just wondering what it was.

Jim Sutcliffe: Ok. Because the UK thing is, there was this one large block of contracts and the UK onshore sales are up 59%, so they're up very, very strongly and part of that strength is a particular contract we run, where it's closer to a unit trust contract than a life contract, just under a 'life wrapper', so it carries low margins. And I mean you have, you and I have had this conversation in the past, that when we are priced into an IRR, when you have very light capital businesses, the margins get to be lower. And so as I say, at a product level quite comfortable but you know you could either exclude the low margin product from the sales growth or in, or you can get the margins on average get a bit lower; you can look at it either way you like. But at a product level, we are very much on track. So it's just balancing those two effects.

In the Nordic business, I think we have been telling you for a while that our target is 22-25% and I think we are at 27 for the quarter – for the nine months, but it was a bit of a lower period. I don't envisage us changing our long term targeting but I think you should assume over time that that number will come down.

The ELAM business, to be honest, I thought we were pretty much in line with where we expected to be. The ELAM margins by country are quite different, so you're going to find that number will bob around. It's going to be a little bit volatile and I would guess what we can do, looking at Malcolm, sitting here or Jonathan, who is sitting here, and so looking over time we can give you some better insight into that. You know the Polish margins are amongst the highest and I'm always a bit suspicious that the very high margins continue because I think eventually someone catches up, but as you know I'm not suggesting that's going to change in the short run, but eventually I think that changes.

The South African margins were a little bit higher than at the half year, so again I'm not quite clear what the expectations were. I mean the biggest one-off impact is the cost of the expense overrun and building out the PFA system, and that was a little bit lower impact in the third quarter but not enough to keep the margin up. I think what we did see though is that, and this is an old chesnut system. The mix of group and retail business is affected and we had lower group, and the group margins are always higher than the retail margins. So I suspect what you're seeing is primarily that group retail effect in South Africa. But again at a product level, you know nothing that disturbs us.

Greig Paterson: Ok, so it's not because Metropolitan sales were quite strong, it's not because of Old Mutual Group Schemes where you're having to compete aggressively?

Jim Sutcliffe: No, no. It's not that, I'm sure. Our Group Scheme's margins are pretty much where they've always been so, and it's the employee benefits type group effect.

Greig Paterson: Well thanks very much.

Jim Sutcliffe: Ok.

Operator: The next question comes from Jon Hocking from Morgan Stanley.

Jon Hocking: Morning, everyone. It's Jon Hocking from Morgan Stanley. I just had a few questions. Firstly, on the Nordic business, there's a comment about renegotiation agreements with Skandia Liv. I wonder if you could remind us the way in which that impinges on shareholder profits. Is it just asset management or are there other linkages there and how that process will unfold?

Jim Sutcliffe: Yes.

Jon Hocking: And then secondly on the South African business, there's the comment about the restructuring and obviously the shift from traditional business to unit trust style business. How is the expense base being managed there and what are expectations going forward in terms of EV profit? Because you have seemed to have guided that IFRS profits may be flat, but how are you expecting the EV profit to pan out then?

Jim Sutcliffe: Ok Jon, just to go back to the Skandia Liv. The thing we are referring to in there, there's a whole series of agreements between

Skandia Liv and SkandiaLink about the way in which the expenses are managed, because there were services that are provided on a shared basis. So the issue we are referring to is that we have to put those relationship agreements onto a better footing. They've been there for a long, long time and I don't want to get into the details because it's to a certain extent a negotiation. But it's a question of saying, 'let's actually make sure that the thing doesn't bias in favour of one party or the other, as economic conditions change and the sales rates change' because those are the things that affect it. So it's not so much about the asset management, it's about the back office expense contracts.

On South Africa, the expense base, I think you are putting your finger on exactly the point. What we have started to do, as you will have heard us say over the while, is we priced the insurance product and the unit trust product exactly the same so that the margins if you like in the two are exactly the same. So that's what you're seeing and we are – the expense side of that is that we pay the same commissions so you'll know that there's a whole big change underway in South Africa, partly driven by the government about level and commissions. So these things all intersect and I wouldn't expect to have an overall profit impact in terms of ROE to be significant because the biggest change is actually the removal of the capital based charge, rather than the expense issues. But what we are doing is we are focused on the back office expenses, we are – what we aim to do is to keep them at sort of somewhere on the level and absolute terms, when we have got 5% inflation built into the assumptions and we'll get them back there and then front office terms its to get the productivity and the various sales systems up as high as we can.

On the embedded value profits outlook, the unit trust business of course isn't covered business, so you get some of the same effect, not because there's less profitability but because it's just not in the embedded value numbers as such. I mean clearly it will come through as asset management profit and we have seen that through this year. So the embedded value earnings, I haven't thought about quite as thoroughly as the IFRS earnings but I would think that they would also be a little bit flatter, simply because you have got lower margins to cover the capital.

Jon Hocking: And just a follow up on the Skandia Liv point, am I right in thinking that the in-force value for SkandiaLink in the new business profits of SkandiaLink are in part predicated on an expense assumption, which reflects the fact that you have some operating leverage from Skandia Liv?

Jim Sutcliffe: Yes, that's correct.

Jon Hocking: Ok, thank you very much.

Operator: The next question comes from Blair Stewart from Merrill Lynch.

Blair Stewart: Hi, good morning, everyone. Two questions from me. Just trying to get a handle on which of the adjustments you have taken in Q3 will feed through into the embedded value, it's partly related to Greig's questions, but it seems to me that the changes in the US might come through to the EV and perhaps the changes to the long term investment return in the Nordic region might also come through into the EV at the full year stage. I just want to know if that's correct. And the second question is related to the dividend, clearly we have seen IFRS profits under a bit of pressure. There was a 13% growth in the interim dividend, would you expect to be able to sustain that growth for the full year?

Jim Sutcliffe: Jonathan, why don't you talk to the dividend point?

Jonathan Nicholls: Yes, hi. Good morning. Jonathan Nicholls. The main thing in terms of our dividend policy, what we have said is that we would anticipate the dividends will grow in line with operating profit, IFRS profit and clearly we would then tend to continue to do that. So the increase at the half year was an indication as to what we were hoping for, for the full year. You wouldn't expect me to give a forecast for Q3 and obviously there isn't a dividend announcement for Q3 and we will address that at the full year in February.

Jim Sutcliffe: Blair on the first point, I can't see why the LTIR should feed through the embedded value assumptions. I'm looking at the experts around me, but I don't think that's an embedded value issue.

As far as the US issue, the MYGA and the annuity mortality, as I said to Greig, those are already in the embedded value as calculated at September 30th. So you'll see it in the earnings number but I'm not expecting to see anything beyond that. Does that help, Blair?

Blair Stewart: Yes, that's fine. I understand the point on the mortality, but if you're saying you're upping the policyholder return to then create lower future profit expectations presumably that does also come through in the EV at some point.

Jim Sutcliffe: Yes, no it does. I think the point is only that it's already in the IFRS results so they'll be, and by and large there is a bit of EV effect beyond that, I mean there is something, but it's all in the third quarter number we have already given you.

Blair Stewart: Yes, yes. Ok thanks.

Operator: The next question comes from Risto Ketola from Deutsche Bank.

Risto Ketola: Yes, hi Jim, it's Risto here.

Jim Sutcliffe: Hi Risto.

Risto Ketola: This ITP agreement in Sweden, now can you maybe expand a little bit about what impact it's going to have on the corporate pension market in Sweden overall and how is Skandia positioned within it. So that's the first question. And the second one is, I see OMSA, the employee share scheme is cash settled whereas every other business unit is equity settled and that sort of plays havoc on your IFRS numbers and I'm just wondering why is that scheme cash settled compared to the other schemes in the Group. And then everybody is asking three questions, so I'll put in a third one here as well. Your mortality profits in South Africa are apparently lower and that's always been one feature on Old Mutual's results is the very strong mortality profit, is that a function of the actual experience or are you just becoming more aggressive in the products you sell in the protection space?

Jim Sutcliffe: Ok. Let me sort of deal with this up from the bottom, if you don't mind, Risto.

Risto Ketola: Yes.

Jim Sutcliffe: The mortality profits, as you say, has always been a strength and it continues to be a strength but what we – the comment relates to the fact that we had expanded the Group Schemes business into the burial society area and it was in that area that we had poorer mortality. So it's still profitable overall, it's not that it's changed into a loss or anything like that, but that was a new area and that had poorer mortality than we had priced. So that's what that was about and of course we will change the pricing to fix that.

Then on the employee share scheme, Jonathan and I slightly smile at each other because we had this debate yesterday, you know we do own Old Mutual shares but hedge out those costs, but we can't take it through our accounts.

Now I have already told them in South Africa, we are not committing to cash settled schemes any more, so it's really just a historic question that you know things that have been there for a long time and, frankly, before my time so I can't even remember why they are the way they are. But we will be making some changes in that effect so that this thing doesn't mess us about in the future. But whether that is by of retrospectively making then equity-settled and whether that has the right to take in the accounts or not I don't know.

But at the moment what we have got is the expense coming through the income statement and profit essentially sitting there in trust, not being recognised in the accounts, and eventually those shares will be sold and that benefit will come back to the company. But I understand it comes via the balance sheet - and I'm looking at Jonathan and Katie who are here - rather than via the income statement at the moment. So your point is right and we are focused on making some technical changes to sort out that.

On the ITP agreement, what this is is a union negotiated plan for a block of employees around different corporations and the effect on the overall market is probably positive, in terms of volume, because it gets, you know more people with a better pension arrangement. In terms of the effect on the margins is somewhat downward pressure because it moves you into that corporate negotiated margin space and away from the retail space so it's slightly negative for margins.

Skandia's position should be pretty good but the way this thing's going to work is there will be a slate of investment options which will be given to people through the ITP agreement and that slate has not yet been determined.

So what we are doing at the moment is we are in there pitching as hard as we can to make sure Skandia's name's on the slate, and if it is on the slate then I think the brand name will produce lots of business for us. Does that kind of help you along, Risto?

Risto Ketola: I'm just saying what is the probably you don't get on this panel of providers?

Jim Sutcliffe: Well look, we are pretty confident we'll get on the panel but you know I mean I'm just saying to you that we haven't got on it yet so I can't give you 100% certainty.

Risto Ketola: Maybe just one last quick one here. Blair asked earlier about the VIF impact of the lower future profits. Now I'm assuming, being US accounting, you would have written some of the DAC down if you can't justify it.

Jim Sutcliffe: Correct, that is exactly the effect, yes.

Risto Ketola: Ok, so the amount of lost profit that's written off against DAC, that falls through NAV and a small difference left over left over is the VIF impact.

Jim Sutcliffe: Yes. Just let me say it in my actuarial speak, Risto ok. I will get the accountants to correct me if I mess it up. But you get DAC unlocking, so technically, as I have got it in my head, you have principles that say how much of the expenses that you capitalise at the beginning you can write off against future charges. So if we increase what we pay to customers, the future charges are lower so you have got less that you can write of in the future so you have to write it off in one lump at the beginning. Ok, so that's what's gone on and that is the effect that's in there.

Then in the way in which the VIF works, over and above that, there is more in that increase in the interest rate that won't come through to profit than is not absorbed in charges, if you like. So I don't want to get into the number because we are not quoting the number, but I didn't want to imply that any particular size relative to the 20 or so number that we have got on the DAC unlocking but just to say that it is all in the VIF number that we have used in the embedded value that we have given you.

Risto Ketola: No that's perfect, thanks.

Operator: Next question comes from David Danilowitz, JP Morgan.

David Danilowitz: Hi Jim, David Danilowitz here. Jim, to keep in line I'll go with three questions as well. First of all, there was a few comments that you have embarked on programmes to update your system within Skandia and then occasionally what is said it's part of the synergy programme. My question is, are there going to be any additional costs that weren't part of the synergy programme?

Second question: you mentioned, obviously there's been a trend towards non-life products in South Africa over the last many quarters but your third quarter Mutual Fund sales were quite disappointing, can you highlight why? And then finally, the FGD surplus, £1 billion, you also indicate a move towards higher ROE, lower capital products. How do you expect to maintain ROEs going forward with the increasing capital?

Jim Sutcliffe: Ok Dave, I will get on with number one and I'm looking at Jonathan and he is going to help me out as we go along here. First of all, the comments on the systems in Skandia: there are some costs over an above what was in the synergy, they are not numbers that we are surprised by but just so that we give you guidance as to the future there will be some spending in 2007 on systems over and above what's in there in 2006. And so that's partly the reason for the comment obviously.

And you know, so if I just go back, what we have taken the view is what we always said with that business is that we needed to put it back to where it should be and could be, where its brand values stand for it to be but in order to do that we need to have some better new product development capability and some better servicing capability and so we are putting our back into developing that business.

I think on the non-life sales it's simply the fact that our investment performance wasn't as good in OMAM as it had been in 2005 and that is starting to come through and, you know, some of those unit trust sales are LISPs and multi-managers, as you will know, so you can find sometimes the number move quite quickly, but that's what it's about. And on the FGD, I'll pass to Jonathan.

Jonathan Nicholls: David, thanks for that, I mean I think another way of asking your question is are we to do a share buyback, reading between the lines. I think really our approach at present is in terms of capital management. Clearly, we have the opportunity of managing our dividends.

We are currently, as we speak, going through our three year plan looking forward at the capital needs of all of our businesses and from that we will obviously identify usage of capital going forward. But net-net at the end of the day, if we see a consistent delivery of excess capital over the period then we, clearly we have to look at how we manage that and whether or not we keep it ourselves for future investment or whether in some way either through dividend or buybacks or whatever we give it back to shareholders. So I think that's something that's currently on our radar screen that we are looking at right now, and once we have been through the planning process, by the middle of December, we'll have much clearer clarity on that going forward.

David Danilowitz: Thanks.

Jim Sutcliffe: Ok, thanks Dave.

Operator: The next question comes from James Pearce from Cazenove.

James Pearce: Good morning. I just have a question for Jonathan really about controls, we seem to have a series of restatements of reserves coming through in the US and now South Africa and presumably potentially in Skandia as well. Do you think there is a systemic issue about Old Mutual's financial controls or is this more to do with new management coming in and clearing the decks by taking provisions to set us up for future reporting periods?

Jonathan Nicholls: James, hi, good morning. No, I don't think it's systemic, I mean clearly I have only been here a short period of time but I mean this is a large organisation with a lot of different businesses around the world and the nature of the business seems to me that it's, with such a large portfolio of products, as Jim said earlier in answer to a question, you know, it's inevitable that experience will lead you to make adjustments as you develop that experience.

Having said that, I think in our job or my job in terms of the team going forward is to make sure that we minimise the surprises but also recognise the fact that you know this is a complicated business, life in particular has had its issues in terms of the accounting for that and going forward it's important we minimise those surprises.

So I think just a final comment I would make is that under IFRS, you know, to set out general provisions or you know tuck away provisions as maybe used to be the case back in the seventies and eighties, you just can't do that these days. So if issues become visible, our job is to make sure that they are notified and reported as quickly as possible. So transparency and clarity going forward, which I know Jim has been sending out the message to the team prior to my arrival, we will continue with that process to ensure there are no surprises going forward.

James Pearce: Ok, thanks very much and apologies for only having one question.

Jim Sutcliffe: It's all right, James, we'll wait for the next two in a minute.

Operator: The next question comes from Marius Strydom from BJM.

Marius Strydom: Good morning. My question is regarding Skandia's corporate costs, could you give us an indication of what the sterling amount of Skandia's corporate costs during the eight-month period was compared to during the preceding eight-month period so we can get an indication of how those have developed.

Jonathan Nicholls: Hi, it's Jonathan. Sorry, can we come back to you on that, I don't have that specific number on the comparison versus the last eight months so if you'd bear with us we'll get that to you and come back to you with that number.

Marius Strydom: Thank you very much.

Operator: The next question comes from Greig Paterson, KBW.

Greig Paterson: Yes hello, I thought I'd trump everyone with a fourth question. I mean you have obviously highlighted the theme about going, that you're trying to use less capital intensive products, I know you have factored into your margin expectations the overhead for 2008 so it's not really an issue in terms of embedded value modelling. But what has concerned investors is, I mean, Old Mutual has shown itself to be quite acquisitive of late, what is the probability you'd say in the next twelve months that you'll see a deal in one of the areas that you deem to be underrepresented for instance, maybe US life or UK asset management, I mean what's the risk that we'll see an acquisition in the next twelve months or will you buckle down restructuring and if we see any deals it will only be in the medium term?

Jim Sutcliffe: Greig, first of all, the question depends on size. I mean you know we have made two acquisitions since the end of September, so of course we are acquisitive but that was Ashfield and Intech and you know they are relatively small amounts.

Greig Paterson: I mean large deals.

Jim Sutcliffe: Fine, I just wanted to be sure of what we are talking about. What we have said is that our priority at the moment is bedding down the businesses. We do take the view that the kind of capital efficiency that I have heard AXA talking about in particular, and what we are seeing coming out of the banking world, is something that we need to pay attention to and so I wouldn't want to rule it out completely but I think we'd do it on the basis that it adds to what we are doing.

I have said several times I think as we have talked about Skandia that when we had five months results one should just be a little bit cautious because it's only five months and I'd say again to you that eight months is still a little bit cautious. But you know, just to put flesh on those bones, you know we said on June 20th that we would run the IFRS profits from 100 million, the level in 2005 to 300 million, the level in 2008. You know we are running it at the first eight months at a rate of, an annual rate if you just 12 over 8 times the eight-month number of something like 250. So we are well ahead of schedule on that front but there's still work for us to do.

So our view of all of those things is that we have to make sure that Skandia is bedded down failsafe before we do anything else; but on the other hand if something pops by well I wouldn't want to rule it out but it's got to be subject to the requirement to get the operating businesses operating first.

Greig Paterson: So you're not ruling out a chance of a big deal in the next twelve months, let me understand you correctly.

Jim Sutcliffe: Yes I mean, Greig, you know never say never, but it's not our priority.

Greig Paterson: All right, thank you.

Operator: Next question comes from Risto Ketola from Deutsche Bank.

Risto Ketola: I just thought I'd go for the gold medal of four and five.

Jim Sutcliffe: Go for it Risto.

Risto Ketola: Now, a couple of small ones, South African Asset Management, you have a comment which is a bit confusing, you're saying R100 million lower in the third quarter than in the first half, I mean is it R100 million lower than the run rate of performance fees in the first half or is R100 million less than the absolute number in the first half.

Jim Sutcliffe: Apologies for the confusion, Risto, it meant the quarterly rate in the third quarter was R100 million lower than the average quarterly rate so the average of Q1 and Q2 if you like. And I mean it might be 90 rather than exactly 100, it's approximate but there are three things in there, just to repeat: one, lower performance fees, there were high performance fees in the first quarter in particular, we didn't do first quarter results but they were obviously in the first half.

Second, we are outsourcing some of the back office of OMAM South Africa and that will help our expense ratios going forward but costs money up front and thirdly actually we had some mark to market profits from OMSFIN which are a bit lumpy and they happened in the first two quarters and not in the third quarter. But overall what it means is something like R100 million in the quarter less than the average of the first two quarters. Is that clear, Risto?

Risto Ketola: That's perfect, and I'm sure OMSFIN is looking forward to making money on the Shoprite deal as well.

Jim Sutcliffe: Well, we don't comment on those things as you will understand. I am sure Deutsche Bank will also make some money but you don't know that because it is over the Chinese wall.

Risto Ketola: Yes, that's for sure. And then the last question is, a small neglected business, Namibia and Old Mutual International. Now, those profits were also sharply down like the South African business was, any particular reason there?

Jim Sutcliffe: No, there isn't really. I think there are a bit lower than their run rate in the first couple of quarters, but there are small businesses and it's quite hard to control them at that level, to run on a very smooth basis. The Namibian business is going very well I can tell you, I've had Johannes Gawaxab, who is the guy who runs that business here, in London recently and he's in good shape. The OMI business has got lumpiness, and it's obviously sold back into South Africa primarily but no, those businesses are going fine but they are a bit lower in the quarter.

Risto Ketola: Was there any impact on the BEE deal in Namibia, in those numbers, that should be excluded from the adjusted profit?

Jim Sutcliffe: Yes, there is some impact, but it's quite tiny, Risto.

Risto Ketola: Ok, that's fine.

Operator: The next question comes from Youssef Ziai from ABN Amro.

Youssef Ziai: Yes good morning. A question on the SIPP products of Skandia, how is it performing vis-à-vis competition, it sounded like a tremendous success, are you seeing any loss of business to other players?

Jim Sutcliffe: Thanks, Youssef. I think, without having audited numbers to tell you about, we measure quite carefully our net cash flow against the other major insurers, and I can tell you that we gained net against everybody. I mean, I am not talking just at VIF, I'm looking across the pensions piece. So you know I think that Standard Life certainly have a good SIPP product but all of Skandia's business really looks SIPP-like in the sense that it's a platform which is what is underneath the SIPP and so we have got about £32 billion effectively of quote 'SIPP-type' business against Standard Life that's more like £5-6 billion, so we have got a much bigger business than theirs and, although they are undoubtedly competitors, I am pretty sure that we win more than we lose.

Youssef Ziai: Thank you.

Operator: The next question comes from Greig Paterson from KBW.

Greig Paterson: This is just a question for UK investors in Standard Life, am I correct in saying that you do not book churn as new business the way Standard Life does? In other words if you had to move to a Standard Life basis your new business profits would be higher.

Jonathan Nicholls: Yes I think that is correct, I mean that is our understanding.

Greig Paterson: You wouldn't want to venture how much it would increase if you did book the churn, maybe 5/10/30%?

Jim Sutcliffe: Greig, we don't know about Standard Life accounting policies, we can tell you about ours but no, we don't have anything to say about that.

Greig Paterson: All right.

Operator: The next question comes from David Danilowitz from JP Morgan.

David Danilowitz: Jim, yes, just a follow-up question, there wasn't any information given on the US Life variable annuity expansion, your introduction to variable annuity space. Is there any indication you can give in terms of targets or strategy on that line?

Jim Sutcliffe: Well David, what we are going to do – there are kind of two prongs available to us and we'll deal with them at different points but the two prongs are the distribution prongs if you like, you can sell it via the mutual fund distribution network, now by and large those people want a rating that's higher than ours because we have never sought to be an A++ at best or anything like that.

So that's the one thing but you know we can find ways to do that with credit wrapping and so on in the future but our first thing is to sell it via the MGA's so those are people who are familiar with us, familiar with our administrative set up and so that's going to be our first push. In terms of the product, the way in which you operate in the MGA network is if you think about what the MGAs are doing as opposed to the writing agents, the MGAs are the creators of, the choosers of product for those writing agents so what they like to do is to have something that's a bit specific and not available for somebody else because then that allows them to recruit agents for their business.

Now our multi-boutique asset management style is ideally set up for that because what it means is that we can create products out of the various boutiques for them. So that's what we are doing in the mutual fund area as well so we have got some practice at that too. So that's the strategy of it is to primary sell through MGAs and to use the boutiques to create some unique products that they can put on the menu for the writing agents.

You know, as far as the timing is concerned, as I say, the first sort of period of next year I wouldn't like to be too precise because although we are what, the 28th November, we are getting close but if we said the first quarter it would probably be in the first quarter that we'll kick off. And you know there is some expense up front, I mean if you think about it $10 or $15 million, that sort of territory, but you know we have been spending some of that this year and there'll be a bit more next year. Does that help?

David Danilowitz: Yes, that's great, thanks.

Operator: There are no more further questions at this time, sir.

Jim Sutcliffe: Ok, well, I think probably we'll wrap up there. If I can just go back to what we saw in the first, or in the nine months results, we have seen funds under management up 21% year-to-date, underlying growth driven by net cash flows, so very strong foundations for the future in terms of the basic revenue drivers of the business. Embedded value following the cycles of currencies and so on but pretty much I think where everybody might have expected. IFRS profits are a little light with the one-off effects being taken through and some adjustments of methodologies in the European area. And Skandia still well ahead so four things: good growth, EV on track, IFRS a little light, Skandia still ahead of expectations.

So overall Old Mutual is making good process towards our long-term goal of building an international savings and wealth management business. And with that I think we'll conclude the call and thank you all very, very much for joining us this morning.

Operator: That does conclude our conference call today. Thank you for participating; you may all disconnect.