OLD MUTUAL | plc

# Interim Results 2006

---

**14th September 2006**

**Johannesburg & London**

---

**Jim Sutcliffe**

Good morning everybody and welcome to our presentation of Old Mutuals' Interim Results for the first half of 2006.

We are, of course, presenting here from London where I have Richard Hoskins, our Acting Finance Director, with me. And we are as usual linked by satellite to Johannesburg where Paul Hanratty is hosting. Can you hear us clearly in Johannesburg Paul?

**Paul Hanratty**

We can hear you perfectly, Jim, good morning.

**Jim Sutcliffe**

Thanks Paul.

We are of course webcasting the event live. And a copy of the presentation will also be available on the website later today.

I have with me here in London, as well as others, our Chairman, Chris Collins. And welcome Chris, and thank you very much for coming. And also from one of our South African black business partners, Brimstone, there is Professor Jakes Gerwel, Fred Robertson and Mustaq Brey. And thanks very much for coming along all the way from Capetown.

From our management team here I also have with me, Julian Roberts, who we had to say, don't sit here Julian, go and sit over there, in your new role. And Scott Powers, Guy Barker, Hasan Askari, many others, John Deane, Nick Poyntz-Wright, Rafael Galdon, Jan Erik Back, and there are many others who can help with questions. But let's get going.

These results demonstrate both organic growth as well as the significant contribution now being made by the businesses brought into Old Mutual with the acquisition of Skandia. The IFRS Earnings Per Share (EPS) is slightly better than we had expected, despite the issue of extra shares as part of the acquisition. And the Return on Equity (RoE) is well up with our competitors, and of course now delivered with a much lower risk profile. As announced on 10th August, strong sales of unit trusts, up 70% as you can see on the slide, and open architecture sales generally were particularly pleasing. Skandia has undoubtedly performed beyond our expectations in this respect as well as many others.

The value of new business at £111m increases the figure that we produced before the acquisition, last year's number, by over 100%, which just shows you the change in shape which I will refer to a couple of times as I speak. And of that £111m, some 56% comes from Europe at margins that are roughly the same as last year. More clients around the world invested their money with us. Net cash flow as you will hear was about £9bn from around the world, and markets were positive as well, adding another £9bn, giving us a total Funds Under Management (FUM) at 30th June of £218bn.

Good investment performance drives these of course.

I am also pleased to report that both Embedded Value (EV) and Return on Embedded Value (RoEV) are on track. The embedded value earnings and indeed theEV have been affected a little by some one-off movements, and some changes in economic conditions and assumptions. Following a pause in anticipation of the Skandia acquisition, we have been able, on the back of the good cash production in these results and the good IFRS profits, to produce a 13% dividend increase at the half year stage. And we believe that the group is in a strong position to continue to produce dividend growth into the future.

While the businesses have performed well in operating terms, we have also been making steady progress on a number of strategic fronts. Of course the biggest strategic change in the first half was the acquisition of Skandia, no doubt about that. And we now are in the process of compulsorily acquiring the 1% that we do not own. The acquisition marks a step change for the group, a change in very many respects, in the size and diversity. And the integration of these businesses is progressing extremely well under Julian Roberts and his team. And in particular the combination of the UK business, the Skandia UK business with Selestia, which is now well underway. We remain confident that we will deliver on the targets that we have outlined, as I will say at the end.

We also have a new management structure in place. With this new larger group we needed to be sure that we were dealing with it properly and making sure that we gave effect to Old Mutual's management principles effectively around that larger group. In the United States, Scott Powers has taken responsibility for both the Life and the Asset Management business. He has ambitious plans to build these businesses and to take advantage of the US market where skills of both of the original businesses can be used to good effect. Bob Head continues to work with all three of our South African businesses to seek ways in which to leverage our very strong brands there.

And Paul Hanratty, as you have seen in Jo'burg, has taken the helm at OMSA, Old Mutual South Africa. We don't always talk a great deal about our Asia Pacific businesses which Hasan Askari runs, but their Life sales, at £76m gross sales, it's about £60m APE, would now add nearly 10% to the total. And here too, we have been taking good advantage of the skills of the broader group. And of course, Julian is now running the three European business units, and is doing an excellent job, as you can see from today's results.

We have appointed, as you know, a new Finance Director, Jonathan Nicholls, who will join us on the 1st November. And Jonathan's experience of managing a complex international business will be particularly relevant for us.

The introduction of our multi-boutique model is another example of the strategic development. There are many and I don't want to go into them all. But the introduction of the multi-boutique model which we practise in the United States into our Asset Management business in South Africa, which we announced earlier in the year, has received a good reception. The lessons that we have learned in the US really will be useful. So all in all the existing, the old if you like, Old Mutual businesses have performed well. South African profits up 25%. US profits up 11%. And Skandia is performing better than we had hoped.

Let me pass you over now to Richard who will go into the financials. Richard.

**Richard Hoskins**

Thanks Jim and good morning. And good morning to those of you in South Africa that are listening in today. I am going to start this morning by taking you through the group position, and then moving on to the regions. But before I do that, I would just like to clarify that the 2006 numbers that we will go through at the group level today include 5 months of results for Skandia. So those results are from February, from the date of acquisition. And the 2005 numbers are those numbers that were previously published by Old Mutual. So they exclude Skandia.

So let's start with the highlights. Adjusted IFRS operating profit increased 36% to £771m, reflecting good growth in the underlying businesses, as well as a very strong contribution from Skandia of £119m. EV operating profit increased 39% to £885m. IFRS adjusted EPS decreased slightly to 8.5p or 96c in Rand. There is some dilution to the issue of the 1.4 billion new shares to acquire Skandia. But the reduction in EPS is relatively small as a result of strong underlying earnings, particularly from Skandia, where profits increased sharply compared to the prior period last year. EV per share is up 5% on the same period last year, though down on the year end, and I will talk more about this on the next slide. Return on Equity (RoE) of 14.1% was affected by the higher equity base and interest expense. Although this is competitive in the industry and is well above our cost of capital. RoEV was 13.8% and I will explain the main drivers here when I talk about the regions.

We are pleased with the increased scale of our sales and assets following the Skandia acquisition. The annual premium equivalent of new business increased 130% and the value of new business more than doubled to £111m and FUM grew 40% to £218bn. Group EV has increased from £7.1bn at the year end to £7.9bn, or R104bn. And this reflects the impacts of adding Skandia to the group as well as the good Life and Non-Life earnings of £700m. And this is partially offset by exchange rate movements in the Rand and US Dollar. EV per share in Sterling has declined from year end, from 174p to 143p. And the issue of new shares accounts for about two thirds of this reduction, which is in line with what we said in June. This represents an exchange effectively of EV per share for lower operating risk and greater growth prospects as a result of the Skandia transaction.

The business has grown significantly in scale this year. And as Jim often says, we have a simple profit algorithm, assets x margin – expenses = profit. So let's start here with the assets of the business. FUM increased from £183bn at the year end to £218bn. And Skandia contributed over £42bn of this increase when we acquired them in February. In addition there have net client cash inflows of £9bn since the year end, which were well distributed across the group. And market growth contributed a third of the £9bn. Now this was partially offset by Dollar and Rand exchange rate movements which you can see here, along with the disposal of eSecLending in May, whose assets attracted low margins.

There has also been strong sales growth across the business. And this is the only pro forma slide that I am using at a group level. And there are two things here worth noting. Firstly you can see the continuing shift away from traditional life products and unit trust products to mutual fund products. And you can see here the 8% growth in life new business premium in an APE basis but there is 70% growth from the unit trust side. And I will talk more about this in the regions. The second thing to note here is the shape of group sales which have been transformed by the Skandia acquisition. And over 50% of life sales are now in Europe. The value of new business has also been transformed by the Skandia acquisition. It has more than doubled. And you can see here that it is now well distributed across the regions. Margins in South Africa are stable as we continue to invest in distribution. And I will talk a little about this later. Life margins in the US are slightly lower than the year end due to the higher discount rates, but they are still at the high end of our long term target range. The range of margins in the European businesses reflect the product mix and competitive environment in each region. UK margins, as you will see here, increased because of a better product mix. And we expect them to improve further as we realise synergies. Margins in Europe and Latin America are in line with expectations. And margins in our Nordic business were similar to the same period last year.

Let's turn now to expenses. Expense growth was in line with revenue growth as we continue to invest in developing the business. That investment includes increasing our tied sales force at OMSA, building up our retail operation in the United States and improving UK and Swedish systems in Skandia. All of this investment will drive future sales growth across the business. Focus on cost management across Old Mutual continues to be a priority for us.

Using Jim's algorithm, that brings me back to profit. And we have seen strong growth in profit to £771m under IFRS and £885m for embedded value. Whilst there has been very good growth in South Africa, you can see that our profits are increasingly diversified and the proportion coming from outside South Africa has now almost doubled. That's since the same period last year. As I said earlier, this translates into a slight decrease in EPS. And the additional funding costs and issue of new shares to acquire Skandia led to a dilution of 11% in EPS on an IFRS basis. But as I have said, this comes with a reduced risk profile and enhanced growth prospects for Old Mutual. There was a similar dilution under EV accounting. But we remain in track to be accretive on an EV basis in 2007. So that's the group picture.

Now I would like to move onto the regions and let's start with South Africa. IFRS adjusted operating profit in our Life and Asset Management business increased 3% to R2.8bn, underpinned by a strong increase in Asset Management profits of 27%, and a 24% increase in the long term investment returns, driven by higher levels of shareholder funds due to strong market conditions. This was partially offset by a 10% decrease in Life operating profits, resulting from the investment in distribution that we have talked about, an increase in the Old Mutual Rand share price driving a higher share based payments charge in the Profit & Loss, and a decline in investment variances as a result of interest rate movements in the first half. Return on capital at 23% remains very attractive. Adjusted operating profit on an EV basis decreased 3%, mainly as a result of lower positive experience variances which were unusually high in 2005. RoEV reduced from 16% to 13% as a result of those lower positive experience variances, the higher EV opening position in 2006 and a slight decrease in the value of new business. The solvency position in the Life business has improved with capital at more than three times the statutory requirement. This is the result of good equity returns and supports the dividend increase that we have announced today.

The annual premium equivalent for new Life business in OMSA was similar to last year, with increased retail sales offset by lower sales in the healthcare business. The value of new business was impacted by a lower proportion of higher margin group business as well as discount rate changes. And unit trust sales increased over 50%. This trend is likely to continue and is the result of targeted marketing to take advantage of a tax driven shift towards unit trust products. We have made good progress this year in our key objectives. In particular we have generated positive net client cashflows of R6.4bn including R4.2bn from Mutual & Federal. This compares with a R17bn negative position last year. Strong cashflow combined with positive market movements and the acquisition of the Marriott group led to an increase in FUM as you will see of R75bn. The Marriott acquisition contributed R20bn. We have also improved cross sales in our South African business. And for example, bancassurance sales through Nedbank by OMSA have almost doubled and they now represent 11.5% of sales on an annual premium equivalent basis.

Turning now to banking and general insurance. Nedbank delivered excellent growth in operating profit of 54% to R3.25bn demonstrating the success of the recovery programme. We have made good progress at Nedbank in managing expenses. And the cost/income ratio has improved from 65% to 57%. RoE has also improved from 14.8% to 18.3%. So we are well on track to deliver our targeted RoE of 20% in 2007. Net Interest Income and Non-Interest Revenues were well balanced with Net Interest Income up 25% to R5bn and Non-Interest Revenues up 18% to R4.6bn. Margins improved from 3.5% to 3.9% reflecting more cost effective funding in the business, as well as a change in product mix to higher margin business in both the retail and corporate loan books. Gaining market share, especially in retail, continues to be a challenge for Nedbank. And we have announced an investment programme of R1bn over the next three years to help address this. And that investment programme includes opening 400 new outlets and upgrading the ATM network.

Staying on the same slide, just moving on to Mutual & Federal, which is successfully managing the expected downturn in the insurance cycle. And you will see the underwriting ratio fell from 8% to 4% reflecting the softening cycle, as well as higher claims costs, in both the retail and commercial portfolios. We believe premium increases and strong underwriting disciplines will support underwriting profit going forward.

Following the special dividend payments previously announced as R2.2bn, we expect the solvency margin for Mutual & Federal to decrease from the current level at 75% to 40%. And this is enough to sustain current operations as well as to support future business growth, and will of course enhance our RoE going forward. The South African economy continues to show very good GDP growth at about 4%. This may moderate with interest rates rising and the recent depreciation of the Rand. And second half earnings may be impacted by currency fluctuations. But we remain positive about the outlook. So that's South Africa.

And let's move on now to the United States where our businesses in the US delivered a combined IFRS operating profit of $234m. And that's an 11% increase on the same period last year. $105m of that profit was contributed by our Asset Management business where FUM increased 11% to $231bn. Net client inflows of $10bn were driven by strong investment performance from our affiliates in a positive equity market, with 88% of assets outperforming their three year benchmarks. The operating margin strengthened even after investment in our retail operation, where gross sales almost doubled to $1.2bn, including mutual fund sales of $687m.

Moving on to US Life where operating profits increased 11% to $129m under IFRS, driven by continued growth in assets and the increasing number of policies in force. RoE is broadly in line with the same period last year. EV operating profits fell from $157m to $120m and RoEV has reduced in line with this. The main reason for this fall was that penalty free surrender options in some of our products were used more than we expected which led to a change in actuarial assumptions that had a $40m impact. The lower value of new business also had an impact on EV operating profit. As you know, our aim at US Life is to grow assets at a rate that allows us to release cash next year. As a result both the new business annual premium equivalent and the value of new business are down from the record figures of last year. We continue to expect to release cash in 2007 as we have planned. We told you about data conversion problems in February and the transfer to our new actuarial and financial systems is now mostly complete, significantly enhancing our internal processes in the business. No further provisions were required. So that's the US.

Let's move now on to our European businesses where the 2005 numbers here are five months pro forma to help you make some comparisons. You will see that we are seeing excellent profit growth across all of the businesses driven by higher FUM and strong sales growth. In the UK, we are benefiting from the A-Day pension reforms and a market shift towards open architecture platforms. In Europe and Latin America, we are seeing higher profit and sales growth from a small base in less mature markets.

And in the Nordic region, sales are steady and profits are starting to flow through. I would now like to take you through each of the businesses in some detail, starting with the UK. Adjusted IFRS operating profit grew from £9m to £67m with a strong increase in both Life and Asset Management. Though it's worth noting that the 2005 results are reduced by one-off provisions of around £15m. Life profits are up from £16m to £63m and Asset Management profits increased by £11m. And this reflects a 42% growth in fee income, driven by a similar increase in FUM. EV operating profit increased to £86m, driven by growth in new business and a small increase in margins as well as operating leverage. Life sales were up 16% to £262m. £162m of that represents UK unit linked sales which grew 39% benefiting from the A-Day pension reforms. There was very strong growth in unit trusts, from sales within both Skandia UK and Selestia. And they doubled to £1.2bn, showing that we are well positioned in this market to take advantage of the shift towards open architecture platforms.

We talked in June about bringing together the best of Skandia and Selestia's systems to create the largest open architecture platform in the UK with up to 1,000 funds, And we are making very good progress with this. New business margins of 10% are in line with expectations and we are well on track to achieve our targeted range of 11%-12% as synergies are realised across the business. In Europe and Latin America, IFRS operating profit increased from €6m to €16m. This was driven by increased fee income as FUM grew 30% to €13bn. EV adjusted operating profit of €60m benefited from a 39% increase in Life sales with strong contributions from Italy, Poland and France. The 2005 results, it's worth noting, were boosted by some one-off changes in operating assumptions. Mutual fund sales grew 23% to €816m, mainly driven by excellent sales in Spain and Columbia. The new business margin for the region remains strong at 19% reflecting high growth in new business sales. And we expect margins to move towards a more sustainable range of 16%-18% in the mid-term.

So finally on the Europe section, let's have a look at Nordic. And our Nordic region delivered a 66% increase in adjusted IFRS operating profit to SEK572m and higher fee income was driven by 21% growth in FUM to SEK99bn. EV operating profit increased to SEK755m driven by a higher return on in force business and improved experience variances. Life and mutual fund sales in the Nordic region are broadly in line with last year. And sales were especially high in the first half last year because of the launch of the new tax efficient pension products in Sweden. New business margin for the Life business was 29%. As we have said before we expect margins to move to the range of 22%-25% in the mid-term, due to structural changes in the Swedish pension market.

So as you can see Skandia has produced very good results for the half year and we feel very comfortable that the targets that we have set for the business are achievable.

Our capital position at Old Mutual remains strong following the Skandia acquisition. And the group remains in compliance with the requirements of the Financial Group Directives, and we have a surplus of £1bn at the end of June. And that is supported by internal cash generation and the issue of £300m of subordinated debt. Total debt has risen to £2.7bn including Skandia. Our gearing ratio at 25% is comfortably within our target range and is in line with our peers. And the group's credit rating remain unchanged post Skandia. Our economic capital position has strengthened and our financial resources significantly exceed the capital required to meet the group's target A rating. Strong cash generation across the business is supporting both investment in future growth of the business and the robust dividend policy. And you will see that we have announced today dividend growth of 13.5% recognising our conservative approach in 2005 in anticipation of the Skandia acquisition, and consistent with our policy of growing dividends in line with the underlying earnings of the business.

So in summary, this is a very healthy set of results. We have generated good underlying profit growth in each of our regions. We are seeing strong sales growth, especially in unit trusts across the business. FUM have increased almost 40%. Skandia's performance is well ahead of expectations and has strengthened and diversified our earnings base. And going forward our expanding scale and geographic reach creates a strong platform for sustainable growth. Thank you. And I hand back to Jim.

**Jim Sutcliffe**

Thank you very much, Richard. I think you can see that our businesses are performing well. That's not to say that there aren't things that we have to fix. There are some issues in the South African expense base. There are some issues in US Life profitability, Nedbank retail market share and so on and so forth. But I think you can see that the underlying machine is delivering what we said it would do. And I think the opportunities are all out there for us to go for. And the key performance indicators are pointing in the right direction.

So I think we have assembled in Old Mutual a powerful set of engines that complement each other well. On the left hand side, , as you look at it, in Sweden and in South Africa, the Nordic region and South Africa, with big brands and high market shares we have got businesses that are generating strong profits and cashflow, and have the potential to do even better. And it's not just profit. These aren't businesses that are in some kind of decline. They have grown rather nicely too.

Then we have our high growth businesses in the US and in the UK and around Europe. They are powering ahead as they have done recently. That trajectory of growth has been seen again in the first half of this year. And they are also making big IFRS profit contributions.

And finally, we have got our acorns, those investments in Asia Pacific, particularly in India and China, which are showing exceptional growth in premiums and have the prospect of delivering even more.

And across the piece, all that we do is driven by our determination to provide for our customers a high quality asset management service to build and protect their hard earned savings. And as Richard has said, more assets times growing margins with less costs produced better profits. And that's a simple algorithm that underlies everything that we do.

I would like to take a quick look at the priorities in each of the geographic regions. Prospects for the South African economy remain strong. And we continue to position our businesses there to win a major share of the wealth and savings being generated both by the emerging black professional and middle classes, as well as more widely. To achieve this, we are working hard to bring our three businesses closer together, selling each other's products, joint marketing opportunities and looking for ways to reduce costs by operating together. This is difficult and big work. We are well underway, but there is a lot still to come. But the 90% growth in bancassurance at Nedbank is testament to what can be achieved when we set our mind to it.

I touched at the beginning on the introduction of the multi-boutique investment strategy, investment management model, which is keeping Thabo Dloti and his team busy at the moment. There is a lot to do to finalise this process but I do believe that the principles that we have found work so well in the United States, making sure that the asset managers have the autonomy to concentrate on their process does deliver the best investment management results for our clients. And that is at the end of the day the heart of what we do for our customers.

We have been successful in driving down our retail unit costs in South Africa in recent years. And indeed at the end of last year, you will have seen that we were able to change, improve, tighten if you like, some of the assumptions in the EV and in the calculation of results. We spent quite a lot of money though in investing in the expansion of our retail and corporate distribution capability. We had been growing too slowly in South Africa. And we have started to see in these first half year results the return to market share growth that we were looking for. But what it has also shown is that we need to attend to the expense issues over coming months. And indeed Paul Hanratty, Mike Harper and others in South Africa, are already busy making changes. But let me stress these will not be at the cost of our efforts to continue to expand our sales forces, nor indeed to pay our sales people improperly in any way. But we will seek to make productivity improvements and stop wastage. And as you have heard from Richard and from Nedbank, we are committed to building our retail business, our branch footprint, which we believe is central to reversing the loss of market share at

Nedbank and to the success of Old Mutual in South Africa as a whole.

Turning to the United States, as Richard indicated, this is now a big business. With $234m of profit in the first half year, it's noticed by people out there. And it is extremely well placed to take advantage of the huge opportunities in the market in the United States. The wind of demography is at our back in the United States as elsewhere. We have got the capability of riding with the wave that is heading towards specialist asset managers. That's where we have placed our strategy. And we have the momentum that is built with FUM of $231bn in the United States right now, and that excellent performance record that Richard reminded us of. 88% of our clients have received returns over the last three years in excess of their benchmarks. And I know every time Julian and I in the past have stood here, we have been able to say that over the last three or four years. So that's a continuing record. And when you see the net cash inflow into that business, it's on the back of that investment performance record.

Apart from the Asset Management business, we are amongst the leaders in the equity index annuity market and in the middle market mortgage protection business. So a good base for going forward. US Life continues to target sales of about $4bn. Our process in the US is to make sure that we are targeting cash production in 2007. There has been some confusion about that. People sometimes think that $4bn of sales is somehow not trying to grow. But $4bn of sales grows assets about $3bn a year and it's those assets that grow profits. So it's not a non-growth strategy, it's growing on the disciplined principle of producing cash in 2007.

We intend to launch onshore variable annuity sales next year, using the experience we have gained in the offshore market and the strength that we have shown in our Asset Management portfolio. And in that US Asset Management business, we will focus on maintaining that autonomy. Because it has delivered that strong investment performance which supports the strong inflow of funds from clients. Our priorities remain the filling out of our product range. We have had a great start with Copper Rock the small cap growth manager that we started last year, recently passed the $1bn of AUM. And 2100 our alternative manager which we also started last year has had a good start this year too. And of course we have been rolling out our retail network, our mutual fund network, which has produced good results in the first half.

And then to Europe. Now the arrival of Skandia within Old Mutual has changed the shape of the group enormously. I think whichever KPI you look at, whether it's AUM or value of new business or Life sales, you can see that the shape and the size of Old Mutual has changed. Now as Richard has indicated, Skandia, the investment in Skandia, has probably cost us, if you look at these numbers, a year's growth in earnings, our IFRS profit, indeed our EV earnings are about the same this year as last year. But this isn't a long pause. And I believe it's a very worthwhile investment. Because in return it gives us that greater diversification, lower risk, and most importantly, Skandia recalibrates the group's growth trajectory upwards very considerably.

We do have the largest open architecture offering in Europe. And this is the sweet spot in the market place that will deliver exciting growth. And the future for our businesses in Europe is indeed bright. We do have this clear set of targets that we laid out on 20th June. And you can see from this slide that we are well on the way to achieving them. Of course it's work in progress. There is much to do for Julian and his team. We have to deliver the synergies that are needed to deliver, to make that RoE jump from the 9% to the 12% level. And indeed the RoEV needs further work on margins. But we are confident that with the start that we have seen in the first half of this year that we will deliver on the targets.

So we do feel that we have now brought Old Mutual up onto the big board of our sector. We are not comparable in size with the goliaths of the industry. But we believe that Old Mutual's potential, the track that we are on, that potential is very significant, and we remain ambitious to deliver on that potential. We have plenty of opportunity to grow our existing businesses organically. The things we are already doing, the momentum that we have got established, takes us a long way forward. And our expanding presence in the UK and Europe is gaining pace. I have touched on the progress that we can make in Asia Pacific and our US capabilities are extensive. The growth engine is in place and will drive our EV forward.

We remain very focused on IFRS earnings and cash as you can hear us talk. Cash allows us to invest in our businesses and make sure that we grow into the future. And of course it also allows us to deliver a good dividend, which I hope you will agree we have done on this occasion. Our IFRS earnings in the first half were strong and have the potential to grow even further. We don't accept the frequently offered choice that you can either produce cash or you can grow. Of course there is investment required for growth, but by careful strategic focus, choosing a balanced portfolio of cash generating and cash absorbing businesses, by careful product design and risk management, all built into incentive systems, we can deliver both, both high RoEs and high RoEVs. And now with our wider international profile this is going to be delivered on a much lower risk profile. And as I have said, and as you have heard Richard talk about, we are continuing to invest in our businesses, be it in the distribution systems in South Africa, the mutual fund business in the US, the IT systems in the UK and Sweden, and the purchase of Marriott in South Africa, we will continue to invest in the development of our business. And we can, because of that cash delivery.

We are focused on organic opportunities right now. And our first priority is for Skandia to bed down completely and deliver the kind of trajectory into the future that we have seen in these first six months. But our ambition remains to take Old Mutual to the very top of the tree in the international financial services world. And over the next few years we believe that we will have the opportunity to take further significant steps in that direction for the benefit of our shareholders.

Ladies and gentlemen, Old Mutual is extremely well positioned for the future. And although we are always affected by currencies and markets, I am expecting that the progress that we have shown you today to be continued into the second half of the year.

Thank you very much for your attention this morning. We are now going to take questions. As usual what we will do is start with a couple of questions in London. And then Paul, I hope you can hear us well, we will move to Johannesburg. If you wouldn't mind making sure that you get a microphone before you ask a question, so that the people in the other part of the world can hear you, and explain who you are. And at some point we may have some people on the telephone who ask questions as well.Those of you on the telephone want to ask a question, please yell and it will come through via the people here in London. Are there any questions? Mikir.

**Mikir Shah, Fox Pitt Kelton**

Clearly Skandia is performing better than you had expected. And it's self funding its growth. Could you just give us an indication of what sort of growth it could self fund without the holding company having to inject further cash?

**Jim Sutcliffe**

Julian I don't know if you have got a snappy percentage to give us an answer to that question, But Mikir, I think the point is that the rates of growth that we can achieve organically, in other words, the constraint doesn't become putting cash in, the constraint becomes beating the other guys in the market place. So what can we do about that? Well we are going to improve the expense base of the company. We have talked about it in the UK. So I think that the rate of growth that can be achieved in the unit trust business without putting capital in is obviously enormous, because it doesn't suck in a lot of capital. So I would hesitate to give you a number absolutely, but it's well ahead of what we think we can do for other reasons. Right at the back there, I can't see who it is. Is it Matt? Hi Matt.

**Matt Lilley, Lehman Brothers**

Just what is the plan for the US Life business once you have achieved the cash generation next year?

**Jim Sutcliffe**

Yes, I think two things Matt. First of all, I did try to explain this, but if I haven't done it very well, I would like to have another go, which is, the ambition for the US Life business is certainly to grow it and to continue to grow it. We measure growth as I was indicating primarily by AUM. So the next step of progress is building the variable annuity business, which we would expect to have going some time in the first part of next year. The second part of that is that having achieved the cash production that we have spoken about so many times now, we will come to the decision about whether we then take another leap forward, and on what basis. You know, my instinct is the right way to do that is to do it so that you continue to produce cash year in year out going forward. So it's not sort of growth at all costs or anything like that. It's about growing to take advantage of the opportunities there, to build out the product range, and to do it on a basis that continues to produce cash. What Scott broadly is talking about, is that as we think about the products in the United States, the market is shifting from that phase where baby boomers are all accumulating, into that phase where some of them are starting to spend the money. And there is an array of different product options that we will be looking to introduce to cater to that market. So the next steps are about building out variable annuity growth, building out the product range within the envelope that we are in.

**Matt Lilley, Lehman Brothers**

Just a quick follow up.

**Jim Sutcliffe**

Go ahead, Matt.

**Matt Lilley, Lehman Brothers**

Do you see acquisitions as an important part of your medium term US strategy?

**Jim Sutcliffe**

I think I want to be careful in explaining that right now it's organic. But you know if you think five years out, so that we are not talking about next week, OK, but out there. Would we contemplate something? We would contemplate something if it made sense. You know, it's a question of its financial contribution and where it would fit into the rest of the product range. I don't see the economics of our Life business requiring an acquisition to boost or to improve expense ratios or something. That's not the point. But can we get another array of products that we can bring to the MGA network for example, well there might be something like that. I can't see, is it James. The light is dazzling me here.

**James Pearce, Cazenove**

A couple of questions. First of all the dividend, can you give us an indication of what it's going to do going forward. Is it going to grow by 13.5% or what percentage? And it probably is still covered more than three times, assuming one third, two thirds. Can you talk about why you need such high cover? And the second on US Life, could you be a bit more specific about the persistency issue with the nil-surrender penalty product, is that indexed annuities or something else, and can you talk about current market conditions for indexed annuities please?

**Jim Sutcliffe**

OK. First of all, the dividend. I think you should read into the dividend that the existing policy in relation to dividend is being followed. It's not a new policy or a different policy. So the policy is to reflect the underlying growth in the business in the dividend. I think as we have indicated when we were thinking about dividend back in February of this year, we were a little cautious because we hadn't had an opportunity at that stage to understand how Skandia was working. So there is a little bit of catch up in that 13.5% from the last time. But I mean just putting it in simple terms, Richard explained to you that we thought the dilution in IFRS earnings was about 11%. So if you like, given the earnings in the end are about flat, there is about 10% underlying growth. Now I am not forecasting, but I am just giving you a sense of where we are going, alright? So that's the first part of it.

The second question you asked was, isn't the cover too high? Well I think that we havethought carefully about that. We believe that by the catch up we are in the right zone. And we don't work to a specific cover. We work to the underlying growth. So it will be what it will be.

Then the US persistency question. The background to this is that many of our products in the United States, the annuity products have a feature where 10% of the balance can be withdrawn without charge in any year. Now clearly as customers are getting older and the baby boomers get to the end of their accumulation phase, these features start to get used. And indeed as interest rates rise perhaps some people can get higher returns in a new product rather than in the old product. And in any event one way or the other, those features were used more heavily than in the past. And there is a consequential of that, that we brought through into the embedded value. It's not particularly equity indexed annuities or anything, if that was the connection you were drawing. I think the environment for equity indexed annuities, I don't know if Scott or Guy, if you would comment perhaps. But I think that it's similar to the way it has been. But Scott, can we get a microphone to Scott or Guy, please?

**Guy Barker**

Thanks very much. I would echo what Jim said on the free withdrawal take up. It's not a persistency problem. I mean the policies stay on the books but the customers are choosing to use more of that free withdrawal element for their own retirement and planning needs, leaving the policies with us, which is comforting and good for us.

The equity indexed situation has calmed down a lot a few months ago. You will remember there was fuss over whether the NESD which was allied to the securities industry wanted jurisdiction over all equity indexed annuities as opposed to those that were already in its net. I think I said about six months ago that that was in our view unlikely to come through. The SEC didn't regard them as securities and was unlikely to increase its jurisdiction. And that is what is now panning out in the industry. So the fire on that is dampening down. It's true that during the time the fire was up, the companies among our peers who had foots in both camp, and were already in securities and other products, had to cool off the equity indexed problems, exposure, and some of them have been reporting declines in their market. It has been otherwise for us. We have been developing our equity indexed market and have kept our market numbers steady and our share steady, and regard it as an attractive part of the market for which the clouds that we thought would pass over are actually now passing over at some speed. So I think we are in a strong position with strong margins in a strong part of the industry, and believe it will continue.

**Jim Sutcliffe**

Paul, if there is one more question in London I am going to take it, then I am going to come to Johannesburg. So is there one more in London? Anybody? No? OK, Paul I think we have dried up in London. Have you got questions in Johannesburg?

**Paul Hanratty**

Jim, we will ask people. Are there any questions here? Jim, yes, we have got one question here, Jim.

**Jim Sutcliffe**

OK, thank you.

**Dave Danilowitz, JP Morgan**

You discussed the strong cashflows in all the businesses as well as diversification across different regions. Your current gearing level, 25%, do you believe there is upside to that, and where would you feel comfortable, especially given discussions with rating agencies?

**Jim Sutcliffe**

Yes, hi Dave, thanks very much. Certainly I think as you saw from Richard's slide, the financial position, the capital position of the company is strong. Gearing of 25%, I think puts us kind of in the pack as far as our competitors are concerned. You know, what we have always said historically is that the rating agencies have looked to us to have gearing not exceeding 30% for any length of time. So there is a little bit of upside in that, but not a huge amount I would say. And clearly we will think about it as we go along. But Richard is there anything you would add?

**Richard Hoskins**

I think that's right. I think 30% would be the top end, at 25% it feels about right.

**Jim Sutcliffe**

OK. Is there more in Jo'burg Paul?

**Paul Hanratty**

Any more questions? Yes, we have got Risto here with a question, Jim.

**Risto Ketola, Deutsche**

You mentioned you are looking at ways of extracting cost synergies across your South African businesses, rather than revenue synergies like on bancassurance. Are you willing to give any tangible examples of what that entails, like can we expect quite big changes in the corporate structure in South Africa?

**Jim Sutcliffe**

Yes, I think the kind of cost synergies, Risto, things like the project to buy network services together, which we have talked about in the past and is coming through in the numbers in fact this year. So by using the combined buying power of the organisation we can get better rates effectively. You know, an example of that that isn't often understood, just to try and flesh that out for you a moment, is that in South Africa one of the biggest purchases of almost anything you care to mention is Mutual & Federal. Perhaps our general insurance, short term insurer competitors are in the same position, but as insurers we buy huge amounts of stuff to provide claims or to respond to claims. So one of the things that we can do better is to leverage across Mutual & Federal, as well as Nedbank and OMSA, across a range of things that we purchase to improve the prices we pay. So that's the kind of thing. There are clearly some more and perhaps slightly longer term issues sometimes, but we have more data centres than we need probably in South Africa. So there are things like that to think about. I think you asked about the corporate structure question, and you know really the great focus of activity is not on that, it's on, how do we actually make more money. You know, whatever the corporate structure questions are for another day. I will come back to London perhaps, Paul, just for a moment. Are there more questions in London? Mikir again. And then we are going to go to the telephone after Mikir.

**Mikir Shah, Fox Pitt Kelton**

Hi, just a quick question on the special dividend that Mutual & Federal is going to pay you. Can you just tell us what your intentions are for that cash?

**Jim Sutcliffe**

Yes, Mickir, the way in which the cash flows in South Africa, as you may recall, is that it flows up into a holding company in South Africa and that pays a regular monthly dividend. And that's part of our agreement with the authorities in South Africa. So the first usage will be to augment that monthly dividend somewhat. And that's the immediate intent. After that we will have a look, we don't have anything beyond that, that is specific. Let's take the question on the telephone if we may.

**Blair Stewart, Merrill Lynch**

Hi, good morning everyone. It's Blair Stewart from Merrill Lynch. I have just got a question on the IFRS. Profitability of Skandia looks very good. It has never been a particular strong point of that company. So perhaps you could give us a little bit more detail as to why that has improved by so much. And in particular you mentioned that the UK business is benefiting from very strong business volumes. So is there in a sense an exceptional element to that? And the second question is just on the outlook for Life new business margins, I think you mentioned that in a couple of regions you expect those to go down slightly. Thanks.

**Jim Sutcliffe**

Yes, thanks, Blair. Julian will help out here as well. But the fundamental reason that the IFRS profits are good is the leverage off the growth in the assets. So assets driving revenues drives money. So we have seen, and I think this is a contrast to some of our UK competitors in particular, we have seen net cashflow into the business. I think some of our competitors have seen loss of sales but an equally large volume of exits or surrenders, whatever you want to call it. And I think we have been successful, or I know we have been successful in getting net cashflow. So that's the first thing. I think the second thing in Nordic region for example there are some good risk results to add on to that pile. But that's the basic picture. But perhaps I can just hand over to Julian to add to that and to talk to the margins point.

**Julian Roberts**

Yes, just fundamentally the difference is as Jim says, if you look at the FUM there has been very significant growth year on year. If you then want to unpick it a bit, there are different reasons that add to the result in each territory. So last year, for instance, in the UK, there were some one-off charges around the £15m mark. So that was understating last year's profitability. If you then move round again there is an accounting change. Because of course Skandia in the past wouldn't have used a smoothed investment return, and so that has a small uptick in the result moving forward. But fundamentally whether it's in the UK, whether it's in ELAM or in the UK, the reason is the FUM growth having the add-on impact. Now what is happening as well, when it therefore comes through to the cashflow position, is we have now got a maturity of the portfolio, particularly in the UK that has come through, that has meant therefore that the cash is being produced. And that maturity feeds through naturally into IFRS profit. Exactly the same in ELAM, that again in certain segments and more and more countries, the payback periods now are moving that business into profitability, and so we can see that as an ongoing basis. And in Nordic, Nordic has strong IFRS profits and has been in the past.

**Jim Sutcliffe**

Margins, Julian.

**Julian Roberts**

The margins overall, we have the positive impact on the margins coming through of again the growth in the business. And you have seen significant growth everywhere buoying up the margins. You can see in ELAM and Nordic we are forecasting those margins to come down. In Nordic, there is more and more competition. Particularly you see the white collar pension agreement coming through, which certainly on the traditional Life, that agreement is there and in place. But in the unit linked business that is about to come through. And we see really quite a lot of competition generally as more and more the banks are competing in our sort of space. And therefore the margin is still very very good, but coming down. And on ELAM our margins are exceptionally high. They have benefited a bit from some tax losses which in the longer term won't be there. But again as the business matures and grows those margins on an ongoing basis will just come off.

**Jim Sutcliffe**

Thanks Julian. And I think, Blair, I mean just to make the point, if it wasn't obvious, that there was rather a nice increase in the UK where the numbers have been historically a bit low. And we have seen the good gearing there.

**Blair Stewart, Merrill Lynch**

Thank you very much.

**Jim Sutcliffe**

Blair is that alright?

**Blair Stewart, Merrill Lynch**

Yes, fine, thanks very much.

**Jim Sutcliffe**

OK, good. OK, I will come back. John Hocking in London first, and then on the telephone.

**John Hocking, Morgan Stanley**

A couple of quick questions on Skandia's UK business. Where are we on a marketing perspective with Skandia Multifunds and Selestia? I mean if you think about the continuum from fund supermarkets to full wraps how is that business being pitched given that you know Skandia historically has ticked a couple of boxes, but maybe not all the boxes? And secondly, is there any potential benefit if the FSA liberalise selling reserve rules in the UK from a capital position?

**Jim Sutcliffe**

Yes. OK. Nick why don't you pick this up. Nick Poyntz-Wright who runs Skandia UK, if we can just get a microphone here please.

**Nick Poyntz-Wright**

Thanks very much. Thanks for the question, John. Just in terms of the platform businesses and the wrap. What we have said, and Jim mentioned this earlier on, is we have kept both propositions going because the IFAs choosing each particular platform obviously had both choices before and chose the one they like for particular reasons. I think that is working very well. You can see both businesses growing very fast. And the response we have had out in the market to that approach has been strong. We are not expecting that to continue forever, so we have got some good plans to combine the propositions. But we will do that in a measured way and so that we get the best of both. And the good news is that there are features of either proposition if you like that are not reflected in the other. So we can certainly make some strong improvements. And the discussions we are having with IFAs at the moment, suggest that they are very welcoming to that.

If we move forward into the wrap space, I mean there is lots of discussion clearly about wraps, and lots of businesses are trying to get into that segment. I think it's fair to say that our business at the moment, with the combination of Skandia UK and Selestia, has the most component parts and attributes that you would want to see in a full wrap solution going forward. Clearly it doesn't have all of them, and there are other competitors moving into the segment who have some that we don't have. And so our determination is to make sure that we have the fullest offering and we deliver that in a cost effective way, but adding value to the IFAs in delivering the long-term advice to their clients. So that's our position on wraps. But we don't see that as a step change, we see that as a continuum and an evolution. And obviously the first step there is to combine the platforms, which will probably be in the middle of next year.

**Jim Sutcliffe**

And can you take advantage of Sterling reserve changes?

**Nick Poyntz-Wright**

Well I meanwe look at that. And obviously there is a balance in our business at the moment between Life and Mutual Funds. And we are seeing growth in both areas, and pensions particularly around A-Day. But I think our view is that we are quite well hedged in terms of the different product solutions we have got. And there is more, there is more opportunity nowadays if you like for IFAs to consider using different solutions. So we don't, we don't see Sterling reserves as particularly inhibiting us in terms of pricing or in terms of reserving and capital, because actually the coverage is good at the moment, and the capital usage of our business, in terms of producing new business, is a lot lower than it used to be. And clearly that's important in looking at the margins as well.

**Jim Sutcliffe**

OK, thanks, Nick. Let's go to the telephone.

**Greig Paterson**

Yes, good day. I have just one question, the US Asset Management profits were a little disappointing given that the FUM excluding eSec was I think about 16% up and profits were only up 11%. Now drilling down in the detail it looks like there has been a major margin hit, if you look at the revenues, the percentage of AUM ignoring transaction fees. What is going on there? In the last six months there has been, in the value mandate there has been a massive hit on margins. I wonder if you could explain what is going on there?

**Jim Sutcliffe**

Yes, I can see Scott volunteering here, but I will lead off and Scott will continue. Greig, you remember at the year-end we told you that the PFR business had left the fold. And that was a very retail business with high gross margins. So that's actually all you are seeing. It's nothing terribly sinister or worrying, but if you remember Julian's words at the end of the year that the absence of PFR in this year's numbers is going to change that.

**Scott Powers**

Well done Jim.

**Jim Sutcliffe**

That's right, your bonus goes up. Greig, so I mean that's all. If you looked at it business by business, the margins business by business are fine.

**Greig Paterson**

Right so the first half is what we can use as indicative basis points level going forward?

**Jim Sutcliffe**

Correct, that's right. I mean there are two other effects. Just so that we don't, I mean we have said them, but just so that you don't forget, alright. One is, eSec is gone, that sort of works the other way around. And the other is that, FPA has an option to leave at the end of September and you should assume they will take that option. And that also has some effect. But those are the things in your modelling I would suggest you think about.

**Greig Paterson**

Is the FPA high margin as well?

**Jim Sutcliffe**

Yes, relatively. It's not huge, like the others, but it's like PFR, excuse me, but it is one of the higher ones.

**Greig Paterson**

And just a second question, when you look at the effective bond yields and you look at EEV, rising bond yields have hit the investment variance, i.e. you are matched in the discount rates effect has dominated.  But when you, just listening to your comments about IFRS, and the Life profit in South Africa, saying that higher bond yields had hit the IFRS profit, that implies some kind of mismatching going on.  So isn't there a contradiction between the EEV investment surpluses and the comments made about IFRS?

**Jim Sutcliffe**

Yes, Greig, I mean you put your finger on a point.  But it's correct, there was a mismatch which was an error, and it was corrected, but it did have some effect in the first half.

**Greig Paterson**

So what was that in your South African annuity portfolio?

**Jim Sutcliffe**

Yes, that's right.

**Greig Paterson**

So what did we have?  We had assets of longer duration than liabilities?

**Jim Sutcliffe**

Correct.

**Greig Paterson**

Alright, cool.  Thank you.

**Jim Sutcliffe**

Thank you.  Have we got more.  Paul, are there more questions in Jo'burg?

**Paul Hanratty**

Have we got any more questions here anybody?  We have got David again, Jim.

**Dave Danilowitz, JP Morgan**

Hi Jim, Dave again.

**Jim Sutcliffe**

Hi Dave.

**Dave Danilowitz, JP Morgan**

Just on the US Life, could you give us any indication on the cost of the variable annuity expansion? Is there significant capital expenditure? And also while Guy is on the line, if you could give us any insight into recent capital issues relating to Hybrid Securities in the US? Thank you.

**Jim Sutcliffe**

Guy, why don't you answer those questions.

**Guy Barker**

I would just like to point out the strengths of Scott's team. I am going to turn this one over to John Clifford who is heading up the Baltimore financial and other functions.

**John Clifford**

On the variable annuity launch, the cost is pretty immaterial. We are pretty much building on the platform we built for Old Mutual Bermuda in terms of the back office financial systems and a lot of the personnel. We are hiring some distribution people, based in Atlanta. And the initial roll out in terms of distribution will be based on both our existing MGA group. And also Old Mutual Capital in Denver will be doubling up the usage of their wholesaling group to an extent as well. The cost is over a two year period I think less than $20m so I would classify that as fairly immaterial. And just to take the Hybrid Security, the NAIC and the SVO recently in the last couple of days made some more announcements. We had already taken some initial reclassifications on some existing hybrids. And the net of actually writing back up some hybrids and writing some others down in terms of the NAIC ratings is again very small. I think the capital hit before we actually take any management action is probably going to be less than $10m, so again fairly small numbers.

**Jim Sutcliffe**

I don't think, Dave, we are telling you to expect some kind of blip in earnings because of the VA launch. It will be sort of swept up in the general run of things. Any more in Jo'burg, Paul?

**Paul Hanratty**

Any more questions? No, we seem to be all out of questions, Jim.

**Jim Sutcliffe**

OK, last call in London. OK, well thank you very much folks. I think these results as I say were very much on track in Old Mutual's development as an international company, and we look forward to the second half with some confidence. But please come and join us for a cup of tea next door.

END.