Old Mutual plc

Results for the year ended 31 December 2006

Financial highlights

❑ Adjusted operating profit* (IFRS basis):	up 16% to £1,459 million (2005: £1,261 million)
❑ Adjusted operating profit (European Embedded Value (EEV) basis):	up 22% to £1,687 million (2005: £1,387 million)
❑ Profit for the financial year attributable to equity holders of the parent (IFRS basis):	£836 million (2005: £867 million)
❑ Adjusted operating earnings per share* (IFRS basis):	down 18% to 15.1p (2005: 18.5p)
❑ Adjusted operating earnings per share (EEV basis):	down 14% to 17.8p (2005: 20.7p)
❑ Basic earnings per share (IFRS basis):	17.0p (2005: 25.1p)

- Net cash flow in relation to funds under management of £24 billion (2005: £13 billion)
- Funds under management of £239 billion at 31 December 2006 (2005: £182 billion), an increase of 31%
- Total life assurance sales, on an EEV Annual Premium Equivalent (APE) basis, of £1,535 million, an increase of 137% (2005: £648 million)

❑ Adjusted embedded value per share (EEV basis):	157.2p at 31 December 2006 (2005: 174.0p)

- Recommended final dividend up 13.7% to 4.15p (58c)**

Jim Sutcliffe, Chief Executive, commented:

"This set of results reflects a healthy overall performance from around the group. Funds under management grew an impressive 31% with operating profits benefiting both from a better than expected result from the Skandia acquisition and from investment in our existing businesses. Despite earnings being impacted by unfavourable currency translation impact, our strong financial position has enabled us to declare a final dividend increase of 13.7%.

The current year has started well. Although exchange rates, the cost of investing to achieve synergies across Europe, and costs in Sweden and at our South African life business to put these businesses on a sound basis for the future will hold back earnings growth for 2007, we have an excellent set of growing businesses and are clear about the tasks we must complete. We are on track to achieve over £300 billion of funds under management by the end of 2008, which should provide a solid basis for substantial future earnings growth."

26 February 2007

Wherever the items asterisked in the Highlights are used, whether in the Highlights, the Chief Executive's Statement or the Group Business Review, the following definitions apply:

* For long-term and general insurance business, adjusted operating profit is based on a long-term investment return, includes investment returns on life funds' investments in Group equity and debt instruments and is stated net of income tax attributable to policyholder returns. For all businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, initial costs of Black Economic Empowerment schemes, the impact of closure of unclaimed shares trusts, profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments and dividends declared to holders of perpetual preferred callable securities.

Adjusted operating earnings per ordinary share is calculated on the same basis as adjusted operating profit. It is stated after tax attributable to adjusted operating profit and minority interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.

** Indicative only, being the Rand equivalent of 4.15p converted at the exchange rate prevailing on 20 February 2007. The actual amount to be paid by way of final dividend to holders of shares on the South African branch register will be calculated by reference to the exchange rate prevailing at the close of business on 19 April 2007, as determined by the Company, and will be announced on 20 April 2007.

For further information on Old Mutual plc, please visit our website at *www.oldmutual.com.*

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Forward-looking statements

This announcement contains forward-looking statements with respect to certain of Old Mutual plc's plans and its current goals and expectations relating to its future financial condition, performance and results. By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond Old Mutual plc's control, including, among other things, UK domestic and global economic and business conditions, market-related risks such as fluctuations in interest rates and exchange rates, policies and actions of regulatory authorities, the impact of competition, inflation, deflation, the timing and impact of other uncertainties or of future acquisitions or combinations within relevant industries, as well as the impact of tax and other legislation and other regulations in territories where Old Mutual plc or its affiliates operate.

As a result, Old Mutual plc's actual future financial condition, performance and results may differ materially from the plans, goals and expectations set forth in Old Mutual plc's forward-looking statements. Old Mutual plc undertakes no obligation to update any forward-looking statements contained in this announcement or any other forward-looking statements that it may make.

Notes to Editors:

A webcast of the analyst presentation and Q&A will be broadcast live at 9.30 a.m. (UK time), 10.30 a.m. (Swedish time), and 11.30 a.m. (South African time) today on the Company's website, *www.oldmutual.com*. Copies of these results and the associated analyst presentation, together with high-resolution images (at http://oldmutual.com/vpage.jsp?page_id=2220) and biographical details of the executive directors of Old Mutual plc, are available in electronic format to download from the Company's website. An interview with Jim Sutcliffe, Chief Executive, Old Mutual in video/audio and text is now available on the Company's website and on *http://www.cantos.com*.

The 2006 preliminary results Financial Disclosure Supplement can be found on the website. This contains a summary of key financial data for 2006 and 2005.

Chief Executive's Statement

A year of significant international development

2006 was a year of significant international development for the Old Mutual Group, with the successful completion of our acquisition of Skandia. Reflecting the increased spread of our business, funds under management grew substantially, to £239 billion.

Our businesses around the Group produced a healthy overall earnings performance. Operating profit benefited both from a better than expected result from our Skandia acquisition and good progress at our other businesses. We ended the year with a capital surplus of over £1 billion on an FGD (Financial Groups Directive) basis. Our strong financial position has enabled us to recommend a final dividend of 4.15p per share, which produces a total dividend for 2006 of 6.25p, an overall increase of 13.6%.

Notwithstanding this healthy performance, unfavourable currency movements, particularly in the Rand's exchange rate to Sterling, reduced our IFRS earnings per share (EPS) by around 1.2p year-on-year.

The transformation of the overall profile of our business is apparent from the fact that alongside our traditional South African franchise, we now have approximately 60% of our life sales for the year on an APE basis came in the UK and the rest of Europe and over three quarters of our funds under management in the USA and Europe.

We have been pleased with what we have found at Skandia and the cultural integration has progressed well. The synergy targets announced at our market update in June 2006 are on track, with some associated costs to be incurred during 2007. Skandia's UK and Europe/Latin American businesses have exceeded expectations, while the Nordic business is still dealing with a number of legacy issues.

We continued to manage our portfolio of businesses actively during 2006. We acquired Ashfield (a large cap asset manager in the USA, completed in January 2007), Intech (an Australian asset manager) and Marriott (a property investment group in South Africa) and disposed of eSecLending, our US securities lending business, Pacific Financial Advisors, one of our US asset management businesses, and Skandia Vida, Skandia's traditional life assurance business in Spain. We have begun restructuring Old Mutual Asset Managers (South Africa) into twelve boutique businesses under the new name, Old Mutual Investment Group (South Africa), and received a special dividend from our South African general insurer, Mutual & Federal Insurance Company Limited.

Growth is evident from our net cash flow of £24bn, increase in gross unit trust sales of 185% and life APE sales of 137% and increase in funds under management (after discounting businesses disposed of) of 31%.

Our 53%-owned South African banking subsidiary, Nedbank Group, continued on its return to health, with a 38% increase in profit and Return on Equity of 18.6%. Plans for our South African businesses to cooperate strategically and, where appropriate, operationally to deliver ever-increasing bancassurance and other synergy benefits are progressing well.

During the year we were pleased to welcome Jonathan Nicholls as Group Finance Director. Jonathan has already started to make an impact on our financial and accounting processes.

Outlook

This set of results reflects a healthy overall performance from around the group. Funds under management grew an impressive 31% with operating profits benefiting both from a better than expected result from the Skandia acquisition and from investment in our existing businesses. Despite earnings being impacted by the unfavourable currency translation impact, our strong financial position has enabled us to declare a final dividend increase of 13.7%.

The current year has started well. Although exchange rates, the cost of investing to achieve synergies across Europe, and costs in Sweden and at our South African life business to put the business on a sound basis for the future will hold back earnings growth in 2007, we have an excellent set of growing businesses and are clear about the tasks we must complete. We are on track to achieve over £300 billion of funds under management by the end of 2008, which should provide a solid basis for substantial future earnings growth.

We are confident that Old Mutual will continue successfully on its journey to become a premier international savings and wealth management group.

Jim Sutcliffe

Chief Executive

Group Finance Director's Review

GROUP RESULTS

For Old Mutual, 2006, with the acquisition of Skandia, was a transforming year during which we were able to produce a healthy set of results, driven by strong sales and cash earnings and an increased level of funds under management. The acquisition of Skandia in February resulted in a significantly larger and more internationally diversified business.

Group Highlights (£m)	2006	2005	Change
Adjusted operating profit (IFRS basis) (pre tax)	**1,459**	1,261	16%
Adjusted operating profit (EEV basis) (pre tax)	**1,687**	1,387	22%
Profit before tax (IFRS)	**1,714**	1,606	7%
Adjusted operating earnings per share (IFRS basis)	**15.1p**	18.5p	(18%)
Adjusted operating earnings per share (EEV basis)	**17.8p**	20.7p	(14%)
Basic earnings per share (IFRS basis)	**17.0p**	25.1p	(32%)
Embedded Value (£bn)	**8.6**	7.1	21%
Adjusted Embedded Value per share (EEV basis)	**157.2p**	174.0p	(10%)
Value of new business	**244**	113	116%
Life assurance sales (APE) (£m)	**1,535**	648	137 %
Unit trust / mutual funds sales (£m)	**7,961**	2,795	185%
Net fund inflows (£bn)	**24**	13	85%
Funds under management (£bn)	**239**	182	31%
Return on equity (%) [1]	**12.0%**	18.8%	
Return on Embedded Value	**13.8%**	16.5%	
Full dividend (p)	**6.25p**	5.5p	14%

Strong growth in sales and assets across all regions, including our enlarged European operation, contributed to an encouraging increase in adjusted operating profit before tax. This represents a 30% increase in the life result and a 17% increase in the asset management, banking and general insurance result, with all regions improving on a local currency basis.

Adjusted operating profit after tax and minority interests increased by 11% from £710 million in 2005 to £790 million in 2006, resulting in adjusted operating earnings per share of 15.1p for 2006.

The split of the Group by adjusted IFRS earnings (after tax and minority interests, excluding corporate) is now broadly 58% South Africa, 20% United States, 20% Europe 2% Asia Pacific and elsewhere, reflecting the greater diversification of our earnings as a result of the Skandia acquisition.

[1] Return on equity is calculated using adjusted operating profit after tax and minority interests on an IFRS basis with allowance for accrued coupon payments on the Group's hybrid capital. The average shareholders' equity used in the calculation excludes hybrid capital.

Group Finance Director's Review

Adjusted Embedded Value operating profit up 22%

The increase of 22% in the Group's adjusted operating profit on a European Embedded Value (EEV) basis primarily reflects the significant contribution from Skandia, strong new business growth, and the increased profit from the non-covered business in Nedbank and our asset management businesses.

The adjusted embedded value operating profit of £981 million for our covered business was up 40% from £701 million for the year ended 31 December 2005. This increase was driven by the acquisition of Skandia, which contributed 40% of the profit. The contribution of the South African and United States businesses were 50% and 10% respectively. The value of new life business grew by 116% to £244 million. The increase on prior year is caused by the contribution from Skandia - and growth of 16% in South Africa, partially offset by a managed volume reduction of 12% in the United States.

Whilst operating assumptions across all businesses were more conservative, this impact was largely offset by risk margin recalibration, ranging from 10bps to 30bps. This was driven by the lower risk profile of our business and the impact of higher markets and interest rates reducing the expected cost of financial options and guarantees.

Dilution reduces Adjusted Embedded Value per share down by 10.0%

Adjusted Group Embedded Value (EV) (adjusted primarily to bring listed Group subsidiaries to market value) increased by 21% to £8.6 billion at 31 December 2006 (31 December 2005: £7.1 billion). The adjusted Group EV per share has reduced from 174p to 157.2p at 31 December 2006. Return on Group EV was strong at 13.8%.

The movement in the embedded value per share has been driven by the dilution impact of approximately 22p as a result of acquiring Skandia and depreciation of the South African Rand and US Dollar over the year by 26% and 14% respectively, offset by market movements and operating profit growth.

Synergies on track

The purchase of Skandia, with its leading open architecture technology, builds out our European operations and provides significant opportunities for organic, new start-up and acquisitive growth. The integration and synergies benefits of £70 million per annum (announced in June 2006) are on track to be delivered by end-2008.

Funds under management up 31%

We are pleased with the increased level of our sales and assets following the Skandia acquisition. The Annual Premium Equivalent (APE) of new business increased 137% and the Value of New Business has also more than doubled. Net fund inflows were £24 billion representing 11% of FUM when Skandia's opening FUM are taken into account. Total funds under management is up 31% to £239 billion.

Group Finance Director's Review

Capital position

Highlights (£m)	**2006**	2005	% Change
Senior debt gearing	**6.0%**	6.1%	**(2%)**
Total gearing	**21.8%**	23.6%	**(8%)**

The Group's gearing level remains comfortably within our target range, with senior debt gearing[2] at 31 December 2006 of 6.0% (6.1% at 31 December 2005) and total gearing, including hybrid capital, of 21.8% (23.6% at 31 December 2005) reflecting the funding of Skandia. In January 2006 the Group issued £300 million of Lower Tier 2 Preferred Callable Securities as part of the public debt raising associated with the Skandia acquisition.

The Group continues to develop its economic capital programme. Over the year, we have observed a strengthening in our overall capital position, with available financial resources significantly in excess of the economic capital the Group believes would be required to support its target credit rating.

The Group is in compliance with the Financial Groups Directive capital requirements, which apply to all EU-based financial conglomerates. Our FGD surplus was £1 billion at 31 December 2006.

[2] Senior debt gearing is defined as senior debt over senior debt plus adjusted embedded value on an EEV basis. Senior debt excludes debt from banking activities and is net of cash and short-term investments that are immediately available to repay debt and derivative assets relating to swaps associated with senior debt, so as to reflect debt valued on effective currency and interest rate positions. Total gearing is similarly based, but includes hybrid capital instruments within debt.

Group Finance Director's Review

Holding company cash flow

The table below shows the cash flows of the Old Mutual plc holding company and its satellite holding companies in South Africa, the United States and, since 1 February, Europe. We believe this provides a clearer picture of the receipts and payments of available cash within the Old Mutual group than the IFRS holding company cash flow statement.

	£m	£m
Total debt at 31 December 2005		**1,982**
Opening liquid assets held centrally	**704**	
Operational receipts	535	
Capital receipts	356	
Net debt raised	387	
New equity issuance	14	
Operational expenses	(156)	
Acquisitions, including Skandia	(1,287)	
FX adjustments and other items	18	
Cash available	**571**	
Old Mutual plc dividend paid	(281)	
Organic investment	(214)	
Closing liquid assets held centrally	**76**	
Net debt raised		387
Skandia's debt included at 31 December 2006 and other adjustments		114
Total debt 31 December 2006		**2,483**
Liquid assets held centrally		(76)
Total net debt 31 December 2006		**2,407**

Total available cash within the holding companies at the end of 2005 was £704m, largely being held in anticipation of financing the purchase of Skandia. During 2006, the holding companies received a total of £891m of operational and capital receipts from business units, plus net debt and equity proceeds of £401 million.

After operational expenses, acquisition payments and adjusting items, there was £571m in available cash, of which £281m was used to pay the Old Mutual plc dividend and £214m invested in the businesses.

The balance of remaining cash at the end of 2006 was £76m, which is more in line with normal expectations than the end 2005 balance, as surplus cash is generally applied to reduce outstanding debt.

Group Finance Director's Review

Taxation

The Group's effective tax rate[1] for the year ended 31 December 2006 of 26% increased from 25% for the corresponding period in 2005. The main reasons for this movement are as follows:

- Increased STC (Secondary Tax on Companies) paid on dividends has led to a 1% increase
- A reduction in the amount of non-taxable income has led to a 4% increase
- Against this, the tax rate has reduced by 3% as a result of additional profits arising in lower tax jurisdictions.

Dividend

The directors of Old Mutual plc are recommending a final dividend for the year ended 31 December 2006 of 4.15p per share, making a total of 6.25p per share for the year, an increase of 13.6% over 2005. The indicative Rand equivalent of this final dividend[2] is 58c, making a total of 89c for the year, an increase of 45%. The Board's policy on dividends is to seek to achieve steadily increasing returns to shareholders over time, reflecting the underlying rate of progress and cash flow requirements of Old Mutual's businesses.[3]

Jonathan Nicholls
Group Finance Director

26 February 2007

[1] Based on the tax charge excluding income tax attributable to policyholder returns as a proportion of profit before tax but after income tax attributable to policyholder returns

[2] Based on rates at 20 February 2007 (R13.9876 = £1).

[3] The record date for this dividend payment is the close of business on Friday, 11 May 2007 for all the Exchanges where the Company's shares are listed. The last day to trade cum-dividend on the JSE and on the Namibian, Zimbabwe and Malawi Stock Exchanges will be Friday, 4 May 2007 and on the London and Stockholm Stock Exchange Tuesday, 8 May 2007. The shares will trade ex-dividend from the opening of business on Monday, 7 May 2007 on the JSE and the Namibian, Zimbabwe and Malawi Stock Exchanges, and from the opening of business on Wednesday, 9 May 2007 on the London and Stockholm Stock Exchanges.

Shareholders on the South African, Zimbabwe and Malawi branch registers and the Namibian section of the principal register will be paid the local currency equivalents of the dividend under the dividend access trust arrangements established in each country. Shareholders who hold their shares through VPC AB, the Swedish nominee, will be paid the equivalent of the dividend in Swedish Kronor (SEK). Local currency equivalents of the dividend for all five territories will be determined by the Company using exchange rates prevailing at close of business on Thursday, 19 April 2007 and will be announced by the Company on Friday, 20 April 2007.

Share certificates may not be dematerialised or rematerialised on the South African branch register between Thursday, 7 May and Friday, 11 May 2007, both dates inclusive, and transfers between the registers may not take place during that period.

The final dividend is subject to approval at the Annual General Meeting of Old Mutual plc, which is to be held in London on Thursday, 24 May 2007. Subject to being so approved, the final dividend will be paid on Thursday, 31 May 2007.

Business Review

AFRICA

Satisfactory increase in profits

Strong rand growth in funds under management

Continued strong recovery at Nedbank

Impressive life and non-life sales

Highlights (£m)	2006	2005	% Change
Adjusted operating profit – pre-tax	**1,124**	1,083	4%
Life assurance sales (APE)	**392**	358	9%
Unit trust sales	**1,256**	1,226	2%
Funds under management (£bn)	**41**	43	(5%)

Highlights (Rm)	2006	2005	% Change
Adjusted operating profit – pre-tax	**13,997**	12,539	12%
Life assurance sales (APE)	**4,888**	4,141	18%
Unit trust sales	**15,622**	14,200	10%
Funds under management (Rbn)	**561**	472	19%

Our African businesses continue to benefit from an expanding South African economy with GDP growth of 4.5% and growth of 38% in the JSE All Share Index over the year. We are well positioned across all key product and market sectors to benefit from these positive economic conditions.

Despite the deterioration of the rand, adjusted operating profit for the African businesses increased by 4% on a sterling basis, mainly as a result of the significant increase in Nedbank Group's results as the momentum of the recovery programme continued. The increase in funds under management 'on a Rand basis' despite high outflows, reflects the impact of buoyant markets. These outflows arose principally from the R30 billion withdrawal of Public Investment Corporation (PIC) assets and the depressed investment performance in the early part of 2006.

Several projects aimed at realising revenue and cost synergies between the three businesses have progressed well. In particular, the project to leverage the scale of the data and voice transmission has yielded considerable savings. Bancassurance life sales between Old Mutual and Nedbank have increased 61%.

LIFE ASSURANCE & ASSET MANAGEMENT - OLD MUTUAL SOUTH AFRICA (OMSA).

Substantial sales growth

OMSA delivered another year of impressive sales. This was buoyed by the expanding South African economy driving the demand for investment and insurance products. We are also reaping the benefits of the investment in our retail distribution over the last three years. Our higher sales force numbers and strong medium term investment performance boosted growth in unit trust sales. Despite the shift in customer preference to non-life investment products our Individual Life sales (APE) grew by 19% in our core market. The introduction of new-era products to capture this trend boosted the sales growth. Group life sales (APE) were up 11%.

Responding to our customers' demands for greater investment flexibility and focus, we announced in January 2007 the restructuring of Old Mutual Asset Managers (SA) into twelve autonomous investment houses under the umbrella of Old Mutual Investment Group South Africa. This new multi-boutique business is styled on the successful model operated by our US Asset Managers and combines the benefits of Old Mutual's international reach and strong support infrastructure. We also acquired Marriott, a property specialist and Umbono, the black-empowered investment boutique which gives our customers access to the country's largest index tracking group in South Africa. This restructuring brings our asset management business in line with emerging trends in the global investment world.

Business Review

Highlights (Rm)	2006	2005	% Change
Life assurance adjusted operating profit*	**3,077**	3,819	(19%)
Asset management adjusted operating profit	**874**	801	9%
Long term investment return (LTIR)	**1,773**	1,453	22%
IFRS adjusted operating profit - pre-tax	**5,724**	6,073	(6%)
Return on Allocated Capital	**23%**	27%	
Embedded Value adjusted operating profit of covered business (pre tax)	**5,752**	6,352	(9%)
Embedded Value of the covered business	**33,274**	30,944	8%
Return on Embedded Value of the covered business	**13.5%**	17.6%	
Life assurance sales (APE)	**4,416**	3,784	17%
Unit trust sales (Rbn)	**14,833**	13,319	11%
Value of new business	**781**	614	27%
APE margin (post tax)	**18%**	16%	
SA client funds under management (Rbn)	**424**	362	17%
Net client cash flows (Rbn)	**(29)**	(18)	

*Includes income from associated undertakings

Unit trust sales up 11%

Retail unit trust sales grew in both our broker and agency channels, with sales for the year up to a record R14.8 billion, driven by specific product-level marketing, our ongoing investment in distribution, sales growth through our open-architecture platform, client preference toward non-life investment products and the current positive investment environment in South Africa.

Sales growth, although robust, tapered off in the second half of the year as a result of the volatile market and short-term investment performance slippage during the first half of the year. Again, we are confident that our new boutique model will address these concerns.

Life sales (APE) up 17%

Our investment in our distribution capability has benefited growth in life sales. Despite the move to non-life investment products, individual life sales are up 19% and institutional sales are up 11% on 2005. Good growth was experienced across all core product categories and distribution channels despite a shift in consumer preference to unit trust products. The sharp upsurge in life sales in the fourth quarter, which has continued into the new year, sets us up well for 2007 as a whole.

Business Review

Individual Life sales up 19%

Individual APE (Rm)	2006	2005	% Change
Savings	**1,279**	1,165	10%
Protection	**897**	710	26%
Annuity	**193**	175	10%
Group Schemes	**887**	685	29%
Total	**3,256**	2,735	19%
Single	**841**	706	19%
Recurring	**2,415**	2,029	19%

Individual single premiums showed excellent growth, positively impacted by the bullish investment environment and a strong increase in bancassurance life sales through the Nedbank Group channel. Bancassurance sales, year-on-year were up 61% and as a proportion of total life APE grew from 9% last year to 13% this year. Sales of single premium savings products also showed good growth, supported by strong demand for our popular Investment Frontiers and MAX product range.

Although we enjoyed strong demand for risk products, life wrapped recurring premium investment products remain under pressure as a result of negative publicity around these products. Non-life wrapped sales continue to grow, and sales of recurring premium life savings products through our Group Schemes channel have increased by 29% as a result of higher sales force numbers.

Business Review

Institutional sales up 11%

Institutional APE (Rm)	2006	2005	% Change
Savings	**629**	310	103%
Protection	**99**	157	(37%)
Annuity	**193**	162	19%
Healthcare	**239**	420	(43%)
Total	**1,160**	1,049	11%
Single	**788**	425	85%
Recurring	**372**	624	(40%)

Single premium sales (which tend to be lumpy in nature) were 85% above last year's levels largely as a result of a large Symmetry inflow and several large schemes in the fourth quarter. Institutional Business life recurring premiums declined mainly as a result of disappointing Healthcare sales which reflects the impact of declining membership in our Oxygen scheme following problems with the approval of new benefit options at the start of 2006. A new 75,000-member scheme was tendered for and won (coming on stream in 2007) at the end of the year supporting our efforts to bulk up our healthcare administration. Excluding Healthcare, Institutional sales (APE) is 46% ahead of 2005.

Value of new life business increases as "value for money" for clients improves

Across OMSA, the after-tax value of new life business was R781 million, 27% higher than in 2005. This increase is pleasing given our continued focus on initiatives to improve value for money for customers as well as the investments we have made to increase our distribution capacity during 2006.

New business APE margins have increased to 18% overall from 16% in 2005. Within this result, the Institutional Business margin increased from 18% to 20% and Individual Business margin increased from 16% to 17%. The margin increased due to a change in the mix of business sold with increased sales of Group Schemes and Nedlife in individual business and with-profit annuity business in Institutional Business. The increase in margin was despite the investment in growing our sales forces and distribution capability, the switch to lower charge less capital intensive products, and more competitive pricing of our products.

Growth of 17% in funds under management

Funds under management increased by 17% buoyed by higher equity markets and net fund inflow. Funds under management include R19 billion of funds introduced as part of the acquisition of Marriott Property and Income Specialists in July 2006.

Net fund outflows of R29 billion was disappointing and were severely impacted by the R30 billion of funds withdrawn by the PIC in December 2006 (R10 billion withdrawal in 2005) and, in the second half of the year, concerns over short-term performance slippage. Excluding the PIC withdrawal, net fund inflow was broadly neutral for the year as a result of management actions taken during 2006 to reduce the outflow of client funds experienced in 2005 and to improve inflows through our distribution initiatives. The PIC has indicated that it will place assets with specialists and empowered managers. We believe that with our new boutique structure, investment record and strong empowerment credentials, we are favourably positioned to compete for asset management mandates of all types.

Cash flows benefited from strong positive unit trust inflows into the wholesale and retail market during the first six months of the year. We are very encouraged by the strong net inflows that were achieved by the Symmetry multi-manager business during the final quarter.

Business Review

Good investment performance continues

OMAM (SA) continued to deliver strong investment performance over the medium-term, maintaining its ranking of third out of the eleven institutional asset managers in the Alexander Forbes South African Global Manager Watch (Large) Survey over the three years to 31 December 2006. At 31 December 2006, 81% of funds managed by OMAM (SA) weighted by value outperformed their benchmarks over three years. Our Asset management earnings include the results of Marriott Property and Income Specialists (acquired in July), which together contributed a profit R30 million after integration costs. Excluding the one-off gains in OMSFIN in 2005, Asset Management profits increased 39%.

Earnings depressed

Total earnings decreased by 6% partially as a result of adjustments made in the third quarter in our life assurance and healthcare business. Also impacting on our earnings was the increased investment in our distribution capability. The shift to lower margin and less capital-intensive products subdued expectations for core earnings. IFRS earnings were also negatively affected by the rising (Rand) share price.

Asset Management profits grew by 9% supported by the effects of a higher market. LTIR, partially offset by a reduction in life assurance profits, nevertheless rose by 22%, reflecting the growth in assets held in the shareholders' fund over recent years.

Although our return on allocated capital dropped in 2006, this is still considerably above our hurdle despite being hit by the adjustments mentioned above.

Strong capital position

The capital strength of the South African life company remains strong at a 3.7 times coverage of the Statutory Capital Adequacy Requirement (SCAR), after allowing for statutory limitations on the value of certain assets. This compares with the coverage of 2.8 times at 31 December 2005.

BANKING - NEDBANK GROUP (NEDBANK)

Growth strategy reflected in performance

Headline earnings up 40% to R4,435 million

Nedbank has maintained the momentum reported in the interim and third quarter results, ending the year with a strong performance in the final quarter. All divisions recorded strong growth and improved return on equity (ROE) over 2005.

Highlights (Rm)	2006	2005	% Change
Adjusted operating profit	**6,940**	5,047	38%
Headline earnings*	**4,435**	3,167	40%
Net interest income*	**10,963**	8,529	29%
Non-interest revenue*	**9,468**	8,469	12%
Net interest margin*	**3.92%**	3.55%	-
Cost to income ratio*	**58.2%**	64.8%	-
ROE*	**18.6%**	15.5%	-
ROE* (excluding goodwill)	**22.1%**	18.9%	-

*As reported by Nedbank

Strong performance

Adjusted operating profit grew as a result of the continued positive banking environment, increasing growth in both net interest income and non-interest income, together with disciplined expense management.

Average interest-earning banking advances grew by 16.5%, with strong growth experienced in retail advances, particularly residential home loans. This growth contributed to an increase in Total Assets to R425 billion.

Nedbank has started to show improvements in market share in a number of asset categories particularly retail mortgages and other private sector loans (mainly corporate lending). This can be attributed to the brand being repositioned as a bank for all Southern Africans, increased brand awareness, price reductions in several retail banking products and the launch of a number of new retail products together with continued strong performances from Nedbank Capital and Nedbank Corporate.

Net interest income growth of 29%, Net interest margin increases to 3.92%

Net interest income (NII) growth was particularly strong. The margin increase was driven by the increased endowment together with the higher interest rate environment, positive mix changes from the growth in higher margin retail and business banking advances, as well as a change in the advances mix within Nedbank Retail resulting from higher growth in higher margin personal loans. NII benefited from this increase in the margin together with the growth in advances of 24%.

Nedbank anticipates some margin reduction during 2007 as a result of asset growth being funded largely by wholesale deposits. This will be partially offset by the remaining endowment effect from the interest rate increases.

Impairment losses on loans and advances

The impairments charge rose by 25% for the year. The impairments charge to average advances remained at low levels at 0.52% for the full year. Impairments were negatively impacted by the mix change in advances, referred to above, with higher margin retail advances and personal loans attracting appropriately higher levels of impairments, but with overall and particularly in the corporate division, our credit experience remained good.

Non-interest revenue growth of 12%

Growth in non interest revenue (NIR) was mainly attributable to continued volume growth in Nedbank Corporate and Nedbank Retail, property private equity revaluations and realisations in Nedbank Corporate, private equity revaluations and realisations in Nedbank Capital, strong deal flow in Nedbank Capital, and strong growth in Bond Choice origination fees combined with new business premium growth in our bancassurance operations.

NIR growth has been affected by the price reductions in Nedbank Retail. In July 2006 Nedbank Retail reduced fees for individual current account clients by an average of 13%.

Cost-to-income ratio of 58.2%

The improvement in the cost to income ratio is a result of the growth in operating income and disciplined expense management. As expected, this ratio is above the level of 57.3% reported in June 2006 due to the planned investment in distribution and branding in the second half of the year.

Strong capital position

Nedbank remains well capitalised with a Tier 1 capital adequacy ratio of 8.3% (9.4% at 31 December 2005) and total capital adequacy ratio of 11.8% (12.9% at 31 December 2005). During the year Nedbank executed a number of initiatives as part of the group's ongoing long-term capital management programme, which seeks to achieve an optimal and prudent capital structure including the buy-back of 13.7 million shares.

Nedbank's return on equity (ROE) is now comfortably ahead our cost of capital. While the ROE was ahead of the 2006 target, the planned investment in distribution makes the 55% cost-to-income ratio more challenging in 2007.

Award winning bank

Nedbank received the international award for Emerging Markets Corporate Social Responsibility Bank of the Year' for the second consecutive year and the award for "Bank of the Year in South Africa" at the Banker's 2006 Awards in London. During 2006 Nedbank was also rated first in its category in the JSE Socially Responsible Investment Index and again included in the Dow Jones World Sustainability Index.

Business Review

GENERAL INSURANCE – MUTUAL & FEDERAL

Highlights (Rm)	2006	2005	% Change
Adjusted operating profit	**1,039**	1,178	(12%)
Gross premiums*	**8,549**	8,004	7%
Earned premiums*	**7,458**	6,882	8%
Claims ratio*	**63%**	62%	
Underwriting ratio*	**6.1%**	8.4%	
Solvency ratio*	**49%**	74%	
Return on capital* (3 year average)	**27.5%**	27.4%	

* As reported by Mutual & Federal

Strong performance in a softening cycle

Mutual & Federal delivered another year of solid results, achieving premium growth in a softening insurance market. The adjusted operating profit was boosted by a reserve release of R215 million and was delivered despite the anticipated deterioration in trading conditions in the short-term insurance market which resulted in a modest decrease in Mutual & Federal's adjusted operating profit for the year. Although profitability is 12% lower than last year, Mutual & Federal's continued close management of expenses, premium growth despite persistent pressure on premium income, and an overall relatively low level of claims reflects management's focus on the business's profit levers.

Solid premium growth at 7%

The increase in total gross premiums for the year was broadly in line with inflation and was achieved despite the intensifying of competition and ongoing pricing pressure on premium income.

Underwriting surplus maintained

Mutual & Federal generated an underwriting surplus of R455 million, down 21% from a surplus of R577 million in 2005. The underwriting ratio (the ratio of underwriting surplus to net earned premiums) was 6.1% (2005: 8.4%).

Claims ratio impacted by increased claims

The general level of claims increased over last year, with the claims ratio increasing to 63% from 62%. The motor account was impacted by a sharp increase in the incidence of motor accidents and the continuing escalation in repair costs. In addition, substantial weather related claims were experienced as a result of hailstorms during the year.

Capital Management

The solvency ratio at year end was 49%, substantially impacted by the payment of a special dividend to shareholders following the detailed review of its capital requirements (31 December 2005: 74%). The capitalisation award, with a cash alternative of 800 cents per share, was paid in September 2006 and represented R2.1 billion or 40% of the net asset value of the company. The current solvency level is considered sufficient to sustain ongoing operations, as well as support the future development of the business.

A final dividend of 135c per share was recommended, making a total of 175c for the year (2005: 155c).

Return on capital remained strong as a result of the payment of the special dividend and the satisfactory underwriting performance during the year.

Business Review

UNITED STATES

Excellent Investment performance continues

Life sales in target range at good margins

Highlights (£m)	2006	2005	% Change
Adjusted operating profit (IFRS)	**251**	224	12%
Embedded Value adjusted operating profit (covered business)	**98**	122	(20%)
Life assurance sales (APE)	**262**	290	(10%)
Mutual fund sales	**743**	245	203%
Net fund flows (£bn)	**16***	14	14%
Funds under management (£bn)	**134**	132	1.5%

Highlights ($m)	2006	2005	% Change
Adjusted operating profit (IFRS)	**465**	407	14%
Embedded Value adjusted operating profit (covered business)	**181**	222	(18%)
Life assurance sales (APE)	**482**	528	(9%)
Mutual fund sales	**1,369**	445	208%
Net fund flows ($bn)	**30***	26	15%
Funds under management ($bn)	**263**	227	16%

* Excluding the impact of eSecLending.

Our US business is well placed to achieve strong growth as we enhance our products and investment styles. We introduced a common management structure across the Life and Asset Management businesses and aim to implement a coordinated retail distribution strategy in 2007.

IFRS adjusted operating profit for the US businesses was driven by strong funds inflows, positive equity markets and excellent investment performance in our US Asset Management business and sustained growth in assets at US Life.

The asset management business enjoyed a 16% increase in funds under management in US $ terms, notwithstanding the sale of eSecLending and First Pacific Advisors, whilst US Life funds under management grew by 10% to $22 billion. On a Sterling basis, funds under management reflected the dollar depreciation during 2006.

From 1 January 2007, Old Mutual Asset Managers (UK) (OMAM(UK)), a specialist asset management boutique firm located in London, will become an affiliate of US Asset Management.

US ASSET MANAGEMENT

Strong net client cash inflow

Highlights ($m)	2006	2005	% Change
Adjusted operating profit (IFRS)	**235**	214	10%
Funds under management ($bn)	**261**	226	15%
Net fund flows ($bn)	**30***	26	15%
Mutual fund sales ($m)	**1,369**	445	208%
Operating margin	**28%**	26%	-

*Excludes impact of eSecLending

Another strong operating result

Operating earnings were strong and benefited from strong transaction and performance fees, and strong asset growth resulting from net cash inflows and positive market conditions.

Earnings were boosted by transaction and performance fees of $112 million (2005: $106 million) with a sharp increase in performance fees at Acadian. In addition, we benefited from unrealised gains of $18 million in relation to our seed capital investments in new funds. New earnings were produced from Copper Rock and Larch Lane which partially offset a reduction in securities lending revenue following the sale of eSecLending in May 2006.

The improvement in operating margin came from positive operating leverage, higher average funds under management and a more favourable mix of transaction and performance fees on a stable expense base.

Record net funds flows and 15% growth in funds under management

Record net fund inflows of $40 billion were achieved for the year ($30 billion excluding eSecLending), as Acadian (international/ emerging markets "quant" equity), in particular continued to attract inflows.

The strong growth in funds under management was driven by record cash flows, strong investment performance and positive equity markets. Excluding the disposals of eSecLending ($25.4 billion) and FPA ($10.4 billion), funds under management is up 31% from 2005.

Excellent fund performance

Our affiliates continue to achieve excellent investment performance. At 31 December 2006 90% of assets outperformed their benchmarks over three years. Over the same period 78% of assets ranked in the first quartile of their peer group.

Building our business

Our Old Mutual Capital initiative gathered momentum with gross sales of $2.3 billion, an increase of 77% compared to $1.3 billion last year. Of this, $1.4 billion related to mutual fund sales, up 208% on last year.

US Asset Management continues to manage and balance its portfolio, with the addition of growth specialists; Copper Rock Capital Partners in February 2006, and Ashfield Capital Partners in February 2007, and of hedge fund of funds capability at Larch Lane and 2100. We divested eSecLending in May, and in October, our last remaining revenue sharing firm, First Pacific Advisors, executed an MBO.

A trend of strong net inflows, a track record of excellent investment performance, and a focus on retail distribution place the business in a favourable position to increase funds under management and earnings going forward.

Business Review

US LIFE

Life assets up $2 billion

Continued increase in operating profits

EV models improved

Highlights ($m)	2006	2005	% Change
Adjusted operating profit (IFRS)*	**230**	193	19%
Return on equity*	**7.1%**	6.4%	
Embedded Value adjusted operating profit	**181**	222	(18%)
Return on embedded value (ROEV)	**6.1%**	8.5%	-
Life assurance sales (APE)	**482**	528	(9%)
Value of new business	**83**	93	(11%)
New business margin	**17%**	18%	
Funds under management ($bn)	**22**	20	10%

* 2005 restated to exclude amortisation of the present value of acquired in-force business

Earnings increased in line with assets, with asset growth driven by premiums at the planned level. Although positive earnings growth was achieved, this was slowed by the impact of higher interest rates, which led us to strengthen our capitalised assumptions on our Multi-Year Guaranteed Annuities (this gave rise to a $24 million reduction in IFRS earnings in Q3) and poorer than expected mortality experience on Single Premium Immediate Annuities.

EEV assumptions were strengthened for the Single Premium Immediate Annuities and Multi-Year Guaranteed Annuities, as highlighted at Q3 and the usage of a penalty-free surrender option. Premiums reached $3.9 billion, in the band around $4 billion that we were aiming for, but a little lower than last year when we were at the top of the target range. Together, these resulted in a reduction in the ROEV to 6.1% from 8.5%.

As we have said, we have also been engaged in a substantial upgrade of our systems and our modelling capability. This has resulted in the EV being reduced by $107 million. This has been excluded from adjusted EV earnings, and disclosed separately.

ROE increased in line with the improvement in earnings. We maintained our targeted risk-based capital ratio at 300% and were happy to see statutory profit appear in Q4.

The growth in funds under management benefited from strong net inflows, particularly from Old Mutual Bermuda which achieved inflows in excess of $1 billion for the first time, and positive market movements. The business remains on track to return cash in 2007.

Life sales volumes in target range at good margins

Following a strong performance in the final quarter, total life sales were $3.9 billion on a gross basis and $482 million on an APE basis.

Sales of equity-indexed annuities were the single largest APE contributor and represented 43% of total APE.

Offshore sales (APE) through Old Mutual Bermuda increased by 66% to $119 million, maintaining the strong momentum built in the first half of 2006. The exceptional growth reflects the strength of our relationships and overall expansion in the bank distribution network, combined with the attractiveness of our product range, which includes variable annuity, fixed annuity and equity-indexed products. Offshore annuity sales now represent a quarter of sales in our US Life business.

Margin healthy

The after tax value of new business was affected by slightly lower margins and the reduction in new life sales. Margin remains healthy and within our target range, and reflects strong investment performance and overall improvement in our pricing disciplines during 2006.

Effective financial management and risk control

Our migration to a new actuarial and finance system was successfully executed, with the new system providing enhancements to our internal processes. We continue to improve the required infrastructure to support this growing business.

EUROPE

108% surge in operating profit

Highlights (£m)*	2006	Proforma 2005	% change
IFRS adjusted operating profit	**231**	111	108%
Embedded Value adjusted operating profit (covered business)	**394**	328	20%
Life assurance sales (APE)	**881**	781	13%
Mutual fund sales	**4,306**	2,715	59%
Value of New Business	**127**	113	12%
Net fund inflows (£bn)	**6.3**		
Return on Invested Capital	**8.1%**		
Return on Embedded Value (covered business)	**13.5%**		
Funds under management (£bn)	**52**	44	18%

*All current and prior year numbers reflect 11 months of results and are adjusted to Old Mutual accounting policies, prior year embedded value numbers are on a Skandia basis but allow for group expenses.

Strong business performance

Our European business continued to deliver very pleasing performance on the back of strong sales, net client inflows and the increasing scale of our operations in the United Kingdom and ELAM divisions. APE sales and margins in the fourth quarter improved significantly over the third when volumes were lower due to seasonal effects. Our European business now forms a very significant part of the Group's operations and international diversification, and is on track to achieve the 2008 targets communicated at the Capital Markets Day on 20 June 2006. In line with our estimates announced on 20 June 2006, £16 million was spent on integration costs realising £12 million of synergies in 2006.

Adjusted operating profit for the eleven months to 31 December 2006 increased to £231 million, building on growth in funds under management and strong sales volumes which delivered higher fund- and premium-based income growth. Value of new business grew by 12% driven by an increase in APE. This also contributed positively to the return on EEV of 13.5%.

Our higher than average exposure to baby boomers in our European markets provides a real opportunity. In the UK, we will capitalise on the market trend to wrap products with the launch in the summer of the new supermarket platform. The underlying need for advised pension savings remains and these changes are receiving the committed attention of senior management. In the ELAM Division we are expanding distribution capacity further during 2007.

UNITED KINGDOM AND OFFSHORE

Highlights (£m)*	2006	Proforma 2005	% Change
IFRS adjusted operating profit	**128**	34	276%
EV adjusted operating profit (covered business)	**208**	100	108%
Life assurance sales (APE)	**558**	480	16%
UK life assurance sales (APE)	**396**	261	52%
Unit trust sales	**3,039**	1,456	109%
Value of new business	**55**	44	25%
New business margin	**10%**	9%	
Net fund inflows (£bn)	**4.8**		
Funds under management (£bn)	**35**	29	29%

*All current and prior year numbers reflect 11 months of results and are adjusted to Old Mutual accounting policies, prior year embedded value numbers are on a Skandia basis but allow for group expenses. 2005 figures include Selestia.

2006 was a year of significant achievement for UK Division, characterised by strong sales, strong net fund inflows and ongoing recognition from our distributors. Life sales growth was better than average in the UK market with pension sales, driven by A day, up 65% to £230 million and overall life sales, including offshore, up 16%. In November, Skandia UK were awarded their 26th Financial Adviser 5-star award in 16 years, which this year included the 'Company of the Year' award. The financial results also showed significant improvement over 2005 with strong growth in both the IFRS and Embedded Value adjusted operating profit for the year.

Growing IFRS profits

Adjusted operating profit for the UK division was driven by a higher level of funds under management, the maturity profile of the book and effective operational leverage. The synergy capture process is under way and expenditure has commenced, and will increase over the coming months in line with our 20 June disclosure. Involving an extensive outsourcing arrangement, the business is in the process of extensive reengineering to enable efficient and cost-effective straight-through processing.

The underlying performance of the mutual funds business continued to improve through the second half of 2006. The integration of the two fund supermarkets (Skandia MultiFUNDS and Selestia) is progressing in line with expectations.

Strong underlying Embedded Value performance

Embedded value adjusted operating profit before tax was £208 million, driven by good growth in new business, strong experience variances and operating leverage. Our experience variances were positive, driven by higher fee and favourable surrenders and mortality experience consistent with our expectations.

Strong growth in funds under management and net fund inflows

Net fund inflows were £4.9 billion for the year representing 14% of funds under management. The favourable position was supported by positive market movements giving rise to significant growth in funds under management during the year.

Business Review

Strong new business growth in UK life and mutual fund sales

The UK Division's open architecture platform, helped by our strong reputation in the industry and the favourable economy and equity markets, continued to deliver strong new business growth, with both life sales on an APE basis and mutual fund sales up strongly in the eleven months to 31 December 2006. Sales in the UK were particularly strong boosted by A Day effects and were 52% up at £396 million APE.

Pension sales substantially higher

Overall new business levels in the course of 2006 are broadly in line with management expectations with the exception of UK pensions business where high levels of activity continued even after "Pensions A-Day" (6th April 2006, the date when the UK government significantly simplified the rules for tax privilege). UK Pensions business grew in the year by over 65% to £230 million APE.

Towards the end of the year there was further growth in the sale of life bonds mirroring improved investor confidence arising from equity market appreciation. Offshore business, in line with management expectations remained flat against 2005. UK-sourced offshore sales were muted by uncertainty surrounding the tax treatment of trusts in the early part of the year but improved towards the latter part of the year as greater understanding of the implications of the new legislation became apparent.

Unit trust sales up 109% to £3 billion

Our Selestia and Skandia MultiFUNDS businesses continue to benefit from the IFA's shift to open architecture investment platforms as the preferred strategy for the management of clients' assets. The launch of the Skandia-manufactured "Best Ideas" funds, including the UK Best Ideas in October, has improved net fund inflows across the group generating gross direct subscriptions exceeding £300 million.

Margins improved with new business growing significantly

Life new business APE margins post-tax at a product level improved by 10% for the year. The delivery elements of our integration programme are now well advanced to deliver the synergies required to reduce administrative costs per policy significantly to achieve our target margin in the 11-12% range from mid 2008.

The value of new business improved by 25% to £55 million, due to strong sales growth across our core products.

Bankhall successful turn around

2006 has seen Bankhall concentrate on its core services and ensure that its proposition is meeting fully the needs of the intermediary market. The refocusing of activity has returned the business to profitable growth whilst reducing income and expenses, the latter to a greater extent.

Business Review

NORDIC

Highlights (SEKm)*	2006	Proforma 2005	% Change
IFRS adjusted operating profit	**995**	971	2%
EV adjusted operating profit (covered business)	**1,447**	1,530	(5%)
Life assurance sales (APE)	**1,769**	1,954	(9%)
Mutual funds sales	**2,144**	1,986	8%
Value of new business	**479**	618	(22%)
New business margin	**27%**	32%	
Net fund inflows (SEK bn)	**3.5**		
Funds under management (SEK bn)	**106**	95	12%

*All current and prior year numbers reflect 11 months of results and are adjusted to Old Mutual accounting policies, prior year embedded value numbers are on a Skandia basis but allow for group expenses.

Increased operating profit driven by higher level of funds under management

The increase in adjusted operating profit for the Nordic business is attributable to a higher level of funds under management and positive net client cash flow in the Swedish unit linked business.

Life assurance sales

The sales of the 'Kapitalpension' product boosted life sales (APE) temporarily in 2005 and 2006 saw volumes drop back. New sales of occupational corporate pension schemes (TPS), our largest product, were constant compared to last year.

Denmark recorded strong growth of 101% in life sales (APE) compared to prior year following favourable market development in Denmark and an improved product offering.

Sales in 2007 are likely to be lower as the tax effectiveness of the Kapitalpension product was removed in February this year and we are only on the panel for the new ITP agreement through Skandia Liv products.

Strong growth in funds under management

Funds under management increased following an improvement in market conditions and higher net inflows from customers and benefiting from a strong fourth quarter after the traditionally slow third quarter holiday season

Margin and EEV

Life new business margin was 27%, compared to 32% for the 11 months to 31 December 2005. This in part attributable to the lower new sales of the Kapitalpension. EV adjusted operating profit declined by 5% to SEK 1,447 million. This decrease in EV adjusted operating profit on a pro-forma basis was caused by the lower value of new business, and a small negative operating assumption change in 2006 compared to strong positive assumption changes last year. The former two effects were partially offset by higher fee income and surrender experience in line with assumptions.

Continued growth in banking business

Our banking business continues to strengthen, with lending and deposits achieving good growth during the year. Lending increased to SEK49 billion, up 19% on the prior year, mainly due to strong mortgage lending in Norway. Skandiabanken continued to attract new customers and create valuable synergies with the rest of the Nordic business. Operating profit is lower than 2005, which was impacted by some positive one-offs. This is also in line with 2006 expectations where IT projects and expenditures for the Basel II implementation were planned.

Putting the Business on a sound footing for the future

There are a series of factors that will affect the earnings from this business in 2007. Firstly, we have decided to alter the arrangements between Skandia Liv and Skandia AB so that there is complete clarity that Liv policyholders' interests continue to be separated from the shareholder interests. This should ensure that the longstanding debates about governance of Skandia Liv are resolved. We have commenced discussions with the Skandia Liv board and hope to have these completed in the near future. This will result in greater new business strain borne by our shareholders (SEK 150 million in 2007), and some additional administration costs (SEK 100 million – SEK 150 million per annum), but will enable us to grow profitably in 2008 and beyond. Skandia Liv is an integral part of our strategy, and we believe it is important to ensure that the highest standards of governance are observed. Secondly, the IT systems of Skandia require significant improvements both to improve service standards and to allow us to improve our products, and we will be investing in these over the next eighteen months. This will cost approximately SEK 100 million in 2007. This was well understood at the time of acquisition and does not relate to the synergies, which are being sought at the same time. A new organisational structure for Sweden is being put in place and we are confident about the strength of the underlying Skandia brand in Sweden.

EUROPE AND LATIN AMERICA (ELAM)

Highlights (€m)*	2006	Proforma 2005	% Change
IFRS adjusted operating profit	**48**	9	433%
EV adjusted operating profit (covered business)	**116**	169	(31%)
Life assurance sales (APE)	**282**	231	22%
Mutual fund sales	**1,629**	1,629	0%
Value of new business	**55**	33	66%
New business margin	**19%**	14%	
Net fund inflows (€bn)	**1.7**		
Funds under management (€bn)	**13**	12	8%

*All current and prior year numbers reflect 11 months of results and are adjusted to Old Mutual accounting policies, prior year embedded value numbers are on a Skandia basis but allow for group expenses.

Margins in line with target

The year ended positively, with strong life assurance sales growth recorded for the period, delivered through expanded distribution, profitable products and helped by generally positive equity market sentiment.

In 2006 we continued our expansion into new market segments, distribution channels, IFA networks and products. We also continued our drive for greater efficiency, and used the existing German back office to launch into Hungary and the Czech Republic.

2006 has been another year where our businesses have been recognised in their local markets as excellent service providers and strong innovators of financial solutions. Notable growth was experienced in the French, Polish and Mexican markets. Towards the end of 2006, Austria and France each achieved the landmark of €1 billion funds under management, demonstrating that more and more of our young businesses are achieving scale.

Strong operating profit result

IFRS adjusted operating result reflects the benefits of strong organic growth in life and mutual fund business, coupled with expense discipline.

EEV adjusted operating profit of €116 million is 31% below that for 2005. The decrease is primarily attributed to significant and positive operating assumption changes in 2005, which are marginally negative in 2006. The underlying growth, however, is strong due to the increase in new business resulting in a significant improvement in the value of new business.

Life new business sales end on a strong note

Particularly strong sales of single premium products in Europe and recurring premium business in Poland were recorded during the period.

Mutual fund sales flat

In Latin America, where our pension products are reported as mutual funds business, we performed strongly during 2006, particularly in the mandatory and complementary pension segments in Colombia and in institutional mandates awarded in Mexico. In Europe, sales in 2005 were inflated by exceptionally successful institutional mutual fund inflows in Spain. As anticipated, these inflows in Spain decreased notably in 2006 because of the sale of Skandia Vida, offsetting the growth experienced throughout the rest of the Division.

Funds under management up 8%

Net fund inflows, 14% of opening funds under management, were experienced during the year and account for €1.7 billion of the increase, with unfavourable market movements accounting for €0.7 billion. The overall revenue-generating quality of the funds under management improved over the course of the year.

Margin in line with target

The value of new business is ahead of last year, reflecting particularly good growth in sales and market share in a number of countries and the increasing economies of scale of our operations.

The post-tax profit margin of 19% achieved for the eleven-month period is ahead of our medium-term target range of 16-18%, principally reflecting the good new business growth in higher margin markets and increased economies of scale in the sales activities.

Sale of Skandia Vida, Spain

In December 2006, we announced we have reached an agreement to sell Skandia Vida, our traditional life business in Spain. The successful completion of this transaction is in line with Skandia's core European strategy to focus on mutual fund and unit-linked business.

Business Review

OTHER

Highlights (£m)	**2006***	2005	% Change
Adjusted operating profit	**18**	20	(10%)
Funds under management (£bn)	**12**	7	71%
Unit trust / Mutual funds sales	**1,657**	1,072	55%
KMOM (India) APE (INRm)**	**5,321**	2,659	100%
Skandia:BSAM APE (RMBm)**	**53.8**	6.8	691%

* Includes results of Skandia Australia and Skandia BSAM (China) for 11 months

** This represents 100% of the businesses, OM owns 26% of KMOM and 50% of Skandia:BSAM

Australia

Australian Skandia Limited (ASL) has been operating in the retail Australian market for five years as a unit linked multi manager principally targeting the independent sector. Intech, a research operation focusing on the institutional market, was acquired in late 2006. Both ASL and Intech will benefit from a larger combined investment research team, providing the enlarged entity with top-class proprietary research and wider distribution across both retail and institutional markets.

For the first time since incorporation, the business posted a small profit for the year and is on track to achieve strong profits in 2007. Funds under management closed at AU$14.2 billion (2005: AU$3.7 billion), consisting of retail (ASL) AU$5.1 billion and institutional (Intech) AU$9.1 billion.

China

Our joint venture with the Beijing State-owned Asset Management Company (BSAM) in China has now been in operation for two years and continues to show strong sales growth. The business sells unit-linked products and has licences to operate in Beijing, Shanghai and Jiangsu Province. Plans are underway to apply for at least two further branch licenses before the end of the year and to open two sub branches in other major cities in Jiangsu Province.

For the year ended 31 December 2006 the venture reported a loss of RMB59 million. Despite its recent entry into the market, of the 25 foreign owned joint venture insurance companies in China, Skandia BSAM had the 10th largest gross premium flows.

India

Our 26% life associate in India, Kotak Mahindra Old Mutual (KMOM) continues to make robust progress. Old Mutual has an option to increase its shareholding in the business, when the Indian Government's proposed increase in the foreign direct investment limit, currently capped at 26%, comes into effect.

In line with the Kotak Mahindra Group, KMOM has a 31 March year-end.

Net losses for the 9 months ended 31 December 2006 are INR482 million. Gross premiums for the 9 months totalled INR5,047 million representing a 96% increase on 2005.

Business Review

OMAM (UK)

2006 has been a year of investment and of developing the platform for future growth in OMAM (UK). The business reported adjusted operating profit of £13.1million (2005: £10 million).

Gross sales for the year exceeded £1.6 billion (2005: £1.1 billion) representing a year-on-year increase of 45%. Full year closing funds under management increased by 23% to £5.7 billion (2005: £4.6 billion).

2006 saw the launch of three single strategy hedge funds and three multi strategy hedge funds.

With effect from 1 January 2007, executive responsibilities for OMAM (UK) will be transferred to US Asset Management.

Other

Other businesses include Old Mutual Asset Managers Bermuda and Palladyne Asset Managers in the Netherlands. Palladyne funds under management increased by 54% to €576 million, (2005: €376 million). With effect from 1 January 2007, executive responsibilities for Palladyne will be transferred to Skandia ELAM.

Consolidated Income Statement

for the year ended 31 December 2006

	Notes	Year ended 31 December 2006 £m	Year ended 31 December 2005 £m
Revenue			
Gross earned premiums	3(iii)	**4,713**	4,473
Outward reinsurance		**(267)**	(197)
Net earned premiums		**4,446**	4,276
Investment income (net of investment losses)		**10,439**	6,569
Banking interest and similar income		**2,441**	2,018
Fee and commission income, and income from service activities		**2,262**	1,274
Other income		**324**	215
Share of associated undertakings' profit after tax		**6**	17
Total revenues		**19,918**	14,369
Expenses			
Claims and benefits (including change in insurance contract provisions)		**(7,999)**	(7,795)
Reinsurance recoveries		**245**	226
Net claims and benefits incurred		**(7,754)**	(7,569)
Change in investment contract liabilities		**(4,655)**	(1,202)
Losses on loans and advances		**(123)**	(103)
Finance costs (including interest and similar expenses)		**(91)**	(40)
Banking interest expense		**(1,461)**	(1,254)
Fees and commission expense, and other acquisition costs		**(714)**	(389)
Other operating and administrative expenses		**(2,826)**	(2,155)
Change in third party interest in consolidated funds		**(278)**	(80)
Goodwill impairment	4(ii)	**(8)**	(5)
Amortisation of PVIF and other acquired intangibles		**(379)**	(24)
Profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	**85**	58
Total expenses		**(18,204)**	(12,763)
Profit before tax		**1,714**	1,606
Income tax expense	5(i)	**(621)**	(484)
Profit for the financial year		**1,093**	1,122
Profit for the financial year attributable to:			
Equity holders of the parent		**836**	867
Minority interests			
Ordinary shares	6	**207**	203
Preferred securities	6	**50**	52
Profit for the financial year		**1,093**	1,122

Earnings per share		Year ended 31 December 2006 Pence	Year ended 31 December 2005 Pence
Basic earnings per ordinary share	7(i)	**17.0**	25.1
Diluted earnings per ordinary share	7(i)	**16.1**	24.3
Weighted average number of shares – millions		**4,705**	3,456

Adjusted Operating Profit

for the year ended 31 December 2006

Reconciliation of adjusted operating profit to profit after tax

	Notes	Year ended 31 December 2006	£m Year ended 31 December 2005
South Africa	3(ii)	1,124	1,083
United States	3(ii)	251	224
Europe	3(ii)	231	(4)
Other	3(ii)	16	20
		1,622	1,323
Finance costs		(130)	(37)
Other shareholders' income / (expenses)		(33)	(25)
Adjusted operating profit*		1,459	1,261
Adjusting items	4(i)	16	218
Profit for the financial year before tax		1,475	1,479
Total income tax expense	5(i)	(621)	(484)
Income tax attributable to policyholder returns		239	127
Profit for the financial year after tax		1,093	1,122

Adjusted operating profit after tax attributable to ordinary equity holders

	Notes	Year ended 31 December 2006	£m Year ended 31 December 2005
Adjusted operating profit*		1,459	1,261
Tax on adjusted operating profit	5(iii)	(395)	(314)
		1,064	947
Minority interest – ordinary shares	6(iii)	(224)	(185)
Minority interest – preferred securities	6(ii)	(50)	(52)
		790	710

	Notes	Year ended 31 December 2006	Year ended 31 December 2005
Weighted average number of shares – (millions)	7(i)	5,222	3,840
Adjusted operating earnings per share** – (pence)	7(ii)	15.1	18.5

* For long-term and general insurance business, adjusted operating profit is based on a long-term investment return, includes investment returns on life funds' investments in Group equity and debt instruments and is stated net of income tax attributable to policyholder returns. For all businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, initial costs of Black Economic Empowerment schemes, the impact of closure of unclaimed shares trusts, profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments and dividends declared to holders of perpetual preferred callable securities.

** Adjusted operating earnings per ordinary share is calculated on the same basis as adjusted operating profit. It is stated after tax attributable to adjusted operating profit and minority interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.

Consolidated Balance Sheet

at 31 December 2006

	Note	At 31 December 2006	At 31 December 2005
			£m
Assets			
Goodwill and other intangible assets		**5,367**	1,570
Investments in associated undertakings		**83**	93
Investment property		**804**	847
Property, plant and equipment		**499**	538
Deferred tax assets		**511**	458
Reinsurers' share of insurance contract provisions		**763**	455
Deferred acquisition costs		**1,578**	1,089
Current tax receivable		**60**	29
Loans, receivables and advances		**22,804**	18,456
Derivative financial instruments – assets		**1,238**	1,604
Financial assets fair valued through income statement		**73,065**	35,378
Other financial assets		**11,568**	12,265
Short-term securities		**1,819**	1,764
Other assets		**3,635**	2,373
Assets held-for-sale		**1,165**	36
Cash and balances with central banks		**2,951**	3,051
Placements with other banks		**665**	568
Total assets		**128,575**	80,574
Liabilities			
Insurance contract provisions		**22,495**	23,258
Financial liabilities fair valued through income statement		**57,586**	21,187
Third party interests in consolidation of funds		**3,041**	966
Borrowed funds		**1,676**	1,433
Provisions	9	**542**	285
Deferred revenue		**311**	138
Deferred tax liabilities		**1,393**	611
Current tax payable		**283**	178
Amounts owed to depositors		**25,052**	21,145
Derivative financial instruments – liabilities		**1,060**	1,634
Liabilities held-for-sale		**1,107**	-
Other liabilities		**5,266**	3,320
Total liabilities		**119,812**	74,155
Net assets		**8,763**	6,419
Shareholders' equity			
Equity attributable to equity holders of the parent		**7,237**	4,751
Minority interests			
Ordinary shares		**848**	1,012
Preferred securities		**678**	656
Total minority interests		**1,526**	1,668
Total equity		**8,763**	6,419

Consolidated Cash Flow Statement

for the year ended 31 December 2006

	Year ended 31 December 2006	£m Year ended 31 December 2005
Cash flows from operating activities		
Profit before tax	**1,714**	1,606
Capital gains included in investment income	**(4,076)**	(4,340)
Loss on disposal of property, plant and equipment	**(1)**	8
Depreciation of property, plant and equipment	**68**	61
Amortisation and impairment of intangible assets	**428**	75
Impairment of loans and receivables	**143**	122
Share based compensation expense	**40**	94
Share of associated undertakings profit after tax	**(6)**	(17)
Profit / (loss) arising on disposal of subsidiaries, associated undertakings and strategic investments	**(85)**	(58)
Other non-cash amounts in profit	**68**	9
Non-cash movements in profit before tax	**(3,421)**	(4,046)
Reinsurancer's share of insurance contract provisions	**(785)**	(83)
Deferred acquisition costs	**(632)**	(276)
Loans, receivables and advances	**(5,543)**	(3,233)
Insurance contract provisions	**2,886**	3,307
Financial liabilities fair valued through income statement	**6,594**	2,319
Amounts owed to depositors (including bank and money market deposits)	**5,251**	983
Other operating assets and liabilities	**555**	465
Changes in working capital	**8,326**	3,482
Taxation paid	**(317)**	(314)
Net cash inflow / (outflow) from operating activities	**6,302**	728
Cash flows from investing activities		
(Acquisition) / disposal of financial investments	**(4,294)**	644
(Acquisition) / disposal of investment properties	**(4)**	40
Net acquisition of tangible fixed assets	**(120)**	(83)
Net acquisition of intangible fixed assets	**(39)**	(17)
Acquisition of interests in subsidiaries	**(1,318)**	(56)
Disposal of interests in subsidiaries, associated undertakings and strategic investments	**78**	33
Net cash (outflow) / inflow from investing activities	**(5,697)**	561

Consolidated Cash Flow Statement *continued*

for the year ended 31 December 2006

	Year ended 31 December 2006	£m Year ended 31 December 2005
Cash flows from financing activities		
Dividends paid to:		
Equity holders of the Company	**(281)**	(184)
Equity minority interests and preferred security interests	**(200)**	(99)
Interest payable (excluding banking interest payable)	**(52)**	(40)
Net proceeds from issue of ordinary shares (including by subsidiaries to minority interests)	**52**	2
Repayment of convertible debt	**-**	(336)
Issue of subordinated debt	**297**	259
Other debt issued / (repaid)	**(96)**	(10)
Issue of perpetual preferred callable securities	**-**	688
Net cash inflow / (outflow) from financing activities	**(280)**	280
Net (decrease) / increase in cash and cash equivalents	**325**	1,569
Effects of exchange rate changes on cash and cash equivalents	**(575)**	86
Cash and cash equivalents on acquisition of new subsidiaries	**581**	-
Cash and cash equivalents at beginning of the period	**3,303**	1,648
Cash and cash equivalents at end of the year	**3,634**	3,303
Consisting of:		
Coins and bank notes	**236**	196
Money at call and short notice	**2,190**	2,268
Balances with central banks (other than mandatory reserve deposits)	**9**	59
Mandatory reserve deposits with central banks	**516**	528
Cash and balances with the central banks	**2,951**	3,051
Placements with other banks	**665**	568
Other cash equivalents	**1,101**	381
Cash and cash equivalents subject to consolidation of funds	**(1,083)**	(697)
Total	**3,634**	3,303

Other supplementary cash flow disclosures

Interest income received (including banking interest)	**4,059**	3,322
Dividend income received	**513**	488
Interest payable (including banking interest)	**1,552**	1,294

Cash flows presented in this statement include all cash flows relating to policyholders' funds for the long-term business.

Cash and cash equivalents subject to consolidation of funds are not included in the cash flow.

Statement of Changes in Equity

for the year ended 31 December 2006

Year ended 31 December 2006	Millions Number of shares issued and fully paid	Attributable to equity holders of the parent	Total minority interest	£m Total equity
Equity holders' funds at beginning of the year	4,090	4,751	1,668	6,419
Change in equity arising in the year				
Fair value gains / (losses):				
Property revaluation	-	28	-	28
Net investment hedge	-	75	-	75
Available-for-sale investments	-	(94)	-	(94)
Shadow accounting	-	28	-	28
Currency translation differences / exchange differences on translating foreign operations	-	(852)	(208)	(1,060)
Other movements	-	38	(42)	(4)
Aggregate tax effect of items taken directly to or transferred from equity	-	14	-	14
Net expense recognised directly in equity	-	(763)	(250)	(1,013)
Profit for the year	-	836	257	1,093
Total recognised income and expense for the year	-	73	7	80
Dividend for the year	-	(321)	(160)	(481)
Net sale of treasury shares	-	18	-	18
Issue of ordinary share capital by the Company	1,400	2,674	-	2,674
Net acquisition of interests in subsidiaries	-	-	11	11
Exercise of share options	11	14	-	14
Fair value of equity settled share options	-	28	-	28
Equity holders' funds at end of the year	5,501	7,237	1,526	8,763

Statement of Changes in Equity *continued*

for the year ended 31 December 2006

Year ended 31 December 2006	Share capital	Share premium	Other reserves	Translation reserve	Retained earnings	Perpetual preferred callable securities	Total £m
Attributable to equity holders of the parent at beginning of the year	410	730	374	357	2,192	688	4,751
Changes in equity arising in the year:							
Fair value gains / (losses):							
Property revaluation	-	-	28	-	-	-	28
Net investment hedge	-	-	-	75	-	-	75
Available-for-sale investments	-	-	(94)	-	-	-	(94)
Shadow accounting	-	-	28	-	-	-	28
Currency translation differences / exchange differences on translating foreign operations	-	-	-	(852)	-	-	(852)
Other movements	-	-	(6)	-	44	-	38
Aggregate tax effect of items taken directly to or transferred from equity	-	-	11	(1)	4	-	14
Net expense recognised directly in equity	-	-	(33)	(778)	48	-	(763)
Profit for the year	-	-	-	-	836	-	836
Total recognised income and expense for the year	-	-	(33)	(778)	884	-	73
Dividend for the year	-	-	-	-	(321)	-	(321)
Net sale of treasury shares	-	-	-	-	18	-	18
Issue of ordinary share capital by the Company	139	3	2,532	-	-	-	2,674
Exercise of share options	1	13	-	-	-	-	14
Fair value of equity settled share options	-	-	28	-	-	-	28
Attributable to equity holders of the parent at end of the year	550	746	2,901	(421)	2,773	688	7,237

Other reserves	£m At 31 December 2006
Merger reserve	2,716
Available-for-sale reserve	28
Property revaluation reserve	48
Cash flow hedge reserve	(1)
Share based payments reserve	110
Attributable to equity holders of the parent at end of the year	2,901

Retained earnings have been reduced by £704 million at 31 December 2006 in respect of own shares held in policyholders' funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

Included in the dividend for the year is £39 million of dividends declared to holders of perpetual preferred callable securities (see note 11).

Included within issue of ordinary share capital by the Company are transaction costs totalling £2 million deducted from the share premium.

Included within other reserves is the merger reserve for the additional share consideration made in respect of the Skandia acquisition, being the difference between the market value of the shares on the date of issue and the nominal value included as share capital.

Statement of Changes in Equity *continued*

for the year ended 31 December 2006

Year ended 31 December 2005	Millions Number of shares issued and fully paid	Attributable to equity holders of the parent	Total minority interest	£m Total equity
Equity holders' funds at beginning of the year	3,854	3,265	1,431	4,696
Changes in equity arising in the year				
Fair value gains / (losses):				
Property revaluation	-	27	-	27
Net investment hedge	-	(78)	-	(78)
Available-for-sale investments	-	(249)	-	(249)
Shadow accounting	-	117	-	117
Currency translation differences / exchange differences on translating foreign operations	-	263	12	275
Cash flow hedge amortisation	-	(12)	-	(12)
Redemption of convertible bonds	-	(18)	-	(18)
Other movements	-	(21)	23	2
Aggregate tax effect of items taken directly to or transferred from equity	-	34	-	34
Net income recognised directly in equity	-	63	35	98
Profit for the year	-	867	255	1,122
Total recognised income and expense for the year	-	930	290	1,220
Dividend for the year	-	(184)	(99)	(283)
Net purchase of treasury shares	-	(182)	-	(182)
Issue of perpetual preferred callable securities	-	679	-	679
Issue of share capital by the Company	231	159	-	159
Net disposal of interests in subsidiaries	-	-	26	26
Exercise of share options	5	4	-	4
Fair value of equity settled share options	-	80	20	100
Equity holders' funds at end of the year	4,090	4,751	1,668	6,419

Statement of Changes in Equity *continued*

for the year ended 31 December 2006

Year ended 31 December 2005	Share capital	Share premium	Other reserves	Translation reserve	Retained earnings	Perpetual preferred callable securities	Total £m
Attributable to equity holders of the parent at beginning of the year	386	600	445	122	1,712	-	3,265
Changes in equity arising in the year:							
Fair value gains / (losses):							
Property revaluation	-	-	27	-	-	-	27
Net investment hedge	-	-	(50)	(28)	-	-	(78)
Available-for-sale investments	-	-	(249)	-	-	-	(249)
Shadow accounting	-	-	117	-	-	-	117
Currency translation differences / exchange differences on translating foreign operations	-	-	-	263	-	-	263
Cash flow hedge amortisation	-	-	(12)	-	-	-	(12)
Redemption of convertible bonds	-	-	(18)	-	-	-	(18)
Other movements	-	-	-	-	(21)	-	(21)
Aggregate tax effect of items taken directly to or transferred from equity	-	-	34	-	-	-	34
Net expense recognised directly in equity	-	-	(151)	235	(21)	-	63
Profit for the year	-	-	-	-	867	-	867
Total recognised income and expense for the year	-		(151)	235	846	-	930
Dividend for the year	-	-	-	-	(184)	-	(184)
Net purchase of treasury shares	-	-	-	-	(182)	-	(182)
Issue of perpetual preferred callable securities	-	(9)	-	-	-	688	679
Issue of share capital by the Company	23	136	-	-	-	-	159
Exercise of share options	1	3	-	-	-	-	4
Fair value of equity settled share options	-	-	80	-	-	-	80
Attributable to equity holders of the parent at end of the year	410	730	374	357	2,192	688	4,751

Other reserves	£m At 31 December 2005
Merger reserve	184
Available-for-sale reserve	68
Property revaluation reserve	39
Cash flow hedge reserve	(3)
Share based payments reserve	86
Attributable to equity holders of the parent at end of the year	374

Retained earnings were reduced by £712 million at 31 December 2005 in respect of own shares held in policyholders funds, ESOP trusts, Black Economic Empowerment trusts and related undertakings.

Consolidated Financial Information

for the year ended 31 December 2006

1. Basis of preparation

The consolidated financial information contained herein has been prepared in accordance with International Financial Reporting Standards adopted by the EU. The Group's results for the year ended 31 December 2006 and the position at that date have been prepared using accounting policies consistent with those applied in the preparation of the Group's 2005 Annual Report and Accounts, except as set out below.

The financial information set out herein does not constitute the company's statutory accounts for the years ended 31 December 2006 or 2005. Statutory accounts for 2005 have been delivered to the registrar of companies, and those for 2006 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include references to any matters to which the auditors drew attention by way of emphasis without qualifying their reports, and (iii) did not contain statements under section 237(2) or (3) of the Companies Act 1985.

Segment presentation

Segment information presented in note 3 has been amended to facilitate the reporting of the enlarged operations of the Group following the acquisition of Skandia.

The Group's results are analysed across four geographic segments. This segmentation is consistent with the Group's management structure. The primary geographic segments are South Africa, United States, Europe and Other. The Europe segment principally comprises the operations of Skandia in the UK, Nordic, Continental Europe and Latin America. The Other segment comprises Skandia's Asia Pacific operations, together with the pre-existing Old Mutual UK asset management and India operations. The United States segment remains as previously stated. For segment reporting purposes, other shareholders income and expenses and finance costs, are shown as Corporate. Reallocations of certain comparative information have been made to include the Nedbank and OMI UK operations in the South Africa segment. This geographic segmentation better reflects the management and customer bases of these businesses.

The Group continues to manage its business across four principal lines of business. These are the bases of the Group's secondary segmentation. The lines of business are long-term business, asset management, banking and general insurance.

Revised and new reporting standards

No revised disclosures and measurements have been required as a result of new or amended international standards and interpretations that the Group had not previously chosen to adopt in preparing the financial statements for the year ended 31 December 2005. The most notable change to IFRS since the last reporting period was the amendment to IAS19, Employee Benefits, which introduced an option to recognise all actuarial gains and losses on defined benefit arrangements through a separate statement of recognised income and expense. The Group has chosen not to apply this option and continues to account for actuarial gains and losses in the income statement using the 'corridor approach'.

Alignment of accounting policies

Following the acquisition of Skandia, the Group's investment and insurance contract accounting policies have been extended to include the 'unbundling' approach to unit-linked assurance contracts, previously adopted by Skandia in its own financial statements. This is in accordance with IFRS 4, Insurance Contracts and requires that the insurance and investment elements of unit-linked contracts are separated and accounted for independently in accordance with the relevant policies for insurance contracts and financial liabilities.

2 Foreign currencies

The principal exchange rates used to translate the operating results, assets and liabilities of key foreign business segments to Sterling are:

	Income Statement (Average rate)	Balance Sheet (Closing rate)
31 December 2006		
Rand	**12.4740**	**13.6746**
US Dollars	**1.8429**	**1.9569**
Swedish Krona	**13.5918***	**13.3924**
Euro	**1.4671***	**1.4837**
1 February 2006		
Swedish Krona		**13.5347**
31 December 2005		
Rand	11.5812	10.8923
US Dollars	1.8195	1.7187

* The 2006 income statement rate applied in respect of Skandia is an eleven month average rate

3 Segment information

(i) Basis of segmentation

The Group's primary segmentation is on a geographic basis, the four geographic segments are based on the Group's management structure of the business; namely South Africa, United States, Europe and Other. The Group operates across four principal lines of business; long-term business, asset management, banking and general insurance. These are the secondary segments.

Income statement information, based on the Group's geographical and business segments, is presented in the form of a matrix that follows the same format as the consolidated income statement. Analysis of gross earned premiums and funds under management is also presented.

3 Segment information *continued*

(ii) Income statement – primary and secondary segment information

Year ended 31 December 2006	South Africa Long-term business	South Africa Asset management	South Africa Banking	South Africa General insurance
Revenue				
Gross earned premiums	1,628	-	-	687
Outward reinsurance	(33)	-	-	(89)
Net earned premiums	1,595	-	-	598
Investment income (net of investment losses)	5,276	43	181	101
Banking interest and similar income	-	-	2,299	-
Fee and commission income, and income from service activities	120	159	584	-
Other income	78	28	36	-
Share of associated undertakings' profit after tax	6	-	6	-
Inter-segment revenues	96	53	8	-
Total revenue	7,171	283	3,114	699
Expenses				
Claims and benefits (including change in insurance contract provisions)	(4,706)	-	-	(404)
Reinsurance recoveries	21	-	-	29
Net claims incurred	(4,685)	-	-	(375)
Change in provision for investment contract liabilities	(1,160)	-	-	-
Losses on loans and advances	-	-	(120)	-
Finance costs (including interest and similar expenses)	-	-	-	-
Banking interest expense	-	-	(1,386)	-
Fees and commission expense, and other acquisition costs	(165)	(4)	(85)	(125)
Other operating and administrative expenses	(536)	(118)	(967)	(58)
Change in provision for third party interest in consolidated funds	-	-	-	-
Goodwill impairment	-	-	(5)	(3)
Amortisation of PVIF and other acquired intangibles	-	-	-	-
Profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments	-	-	17	-
Inter-segment expenses	(65)	(64)	(23)	(6)
Total expenses	(6,611)	(186)	(2,569)	(567)
Profit for the financial year before tax	560	97	545	132
Adjusting items	(24)	-	(11)	(50)
Income tax attributable to policyholder returns	(125)	-	-	-
Adjusted operating profit	411	97	534	82

3 Segment information *continued*

(ii) Income statement – primary and secondary segment information year ended 31 December 2006 *continued*

United States		Europe			Other			£m
Long-term business	Asset management	Long-term business	Asset management	Banking	Asset management	Corporate	Inter-segment (revenue) / expense	Total
2,128	-	270	-	-	-	-	-	4,713
(81)	-	(64)	-	-	-	-	-	(267)
2,047	-	206	-	-	-	-	-	4,446
736	4	3,722	6	-	3	3	364	10,439
-	-	-	-	142	-	-	-	2,441
-	405	600	259	30	105	-	-	2,262
-	31	26	(3)	(8)	3	123	10	324
-	-	-	-	-	(6)	-	-	6
-	14	180	39	33	1	11	(435)	-
2,783	454	4,734	301	197	106	137	(61)	19,918
(2,708)	-	(181)	-	-	-	-	-	(7,999)
164	-	31	-	-	-	-	-	245
(2,544)	-	(150)	-	-	-	-	-	(7,754)
-	-	(3,495)	-	-	-	-	-	(4,655)
-	-	-	-	(3)	-	-	-	(123)
-	-	-	-	-	-	(91)	-	(91)
-	-	-	-	(75)	-	-	-	(1,461)
(34)	(7)	(150)	(56)	(6)	(22)	-	(60)	(714)
(77)	(321)	(413)	(118)	(71)	(64)	(47)	(36)	(2,826)
-	-	-	-	-	-	-	(278)	(278)
-	-	-	-	-	-	-	-	(8)
(22)	-	(349)	(7)	(1)	-	-	-	(379)
-	68	-	-	-	-	-	-	85
(15)	-	(89)	(130)	(31)	(4)	(8)	435	-
(2,692)	(260)	(4,646)	(311)	(187)	(90)	(146)	61	(18,204)
91	194	88	(10)	10	16	(9)	-	1,714
33	(67)	247	9	1	-	(154)	-	(16)
-	-	(114)	-	-	-	-	-	(239)
124	127	221	(1)	11	16	(163)	-	1,459

3 Segment information *continued*

(ii) Income statement – primary and secondary segment information *continued*

Year ended 31 December 2005	South Africa Long-term business	Asset management	Banking	General insurance
Revenue				
Gross earned premiums	1,673	-	-	690
Outward reinsurance	(32)	-	-	(95)
Net earned premiums	1,641	-	-	595
Investment income (net of investment losses)	5,468	47	171	132
Banking interest and similar income	-	-	2,018	-
Fee and commission income, and income from service activities	117	123	556	-
Other income	74	28	57	-
Share of associated undertakings' profit after tax	7	-	10	-
Inter-segment revenues	87	44	3	-
Total revenue	7,394	242	2,815	727
Expenses				
Claims and benefits (including change in insurance contract provisions)	(4,842)	-	-	(413)
Reinsurance recoveries	30	-	-	50
Net claims incurred	(4,812)	-	-	(363)
Change in provision for investment contract liabilities (including amortisation)	(1,202)	-	-	-
Losses on loans and advances	-	-	(103)	-
Finance costs (including interest and similar expenses)	-	-	-	-
Banking interest expense	-	-	(1,254)	-
Fees and commission expense, and other acquisition costs	(139)	(1)	(78)	(126)
Other operating and administrative expenses	(449)	(99)	(973)	(68)
Change in provision for third party interest in consolidated funds	-	-	-	-
Goodwill impairment	-	-	-	(5)
Amortisation of PVIF and other acquired intangibles	-	-	-	-
Profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments	-	-	64	-
Inter-segment expenses	(51)	(57)	(16)	-
Total expenses	(6,653)	(157)	(2,360)	(562)
Profit before tax for the financial year	741	85	455	165
Adjusting items	(142)	-	(34)	(63)
Income tax attributable to policyholder returns	(124)	-	-	-
Adjusted operating profit	475	85	421	102

3 Segment information *continued*

(ii) Income statement – primary and secondary segment information year ended 31 December 2005 *continued*

United States		Europe			Other			£m
Long-term business	Asset management	Long-term business	Asset management	Banking	Asset management	Corporate	Inter-segment (revenue) / expense	Total
2,110	-	-	-	-	-	-	-	4,473
(70)	-	-	-	-	-	-	-	(197)
2,040	-	-	-	-	-	-	-	4,276
565	2	-	2	-	3	17	162	6,569
-	-	-	-	-	-	-	-	2,018
-	406	-	14	-	79	-	(21)	1,274
(2)	34	-	9	-	-	24	(9)	215
-	-	-	-	-	-	-	-	17
1	12	-	3	-	3	9	(162)	-
2,604	454	-	28	-	85	50	(30)	14,369
(2,540)	-	-	-	-	-	-	-	(7,795)
146	-	-	-	-	-	-	-	226
(2,394)	-	-	-	-	-	-	-	(7,569)
-	-	-	-	-	-	-	-	(1,202)
-	-	-	-	-	-	-	-	(103)
-	-	-	-	-	-	(40)	-	(40)
-	-	-	-	-	-	-	-	(1,254)
(12)	(10)	-	(4)	-	(13)	-	(6)	(389)
(69)	(326)	-	(13)	-	(51)	(61)	(46)	(2,155)
-	-	-	-	-	-	-	(80)	(80)
-	-	-	-	-	-	-	-	(5)
(24)	-	-	-	-	-	-	-	(24)
-	(6)	-	-	-	-	-	-	58
(12)	-	-	(12)	-	(1)	(13)	162	-
(2,511)	(342)	-	(29)	-	(65)	(114)	30	(12,763)
93	112	-	(1)	-	20	(64)	-	1,606
13	6	-	-	-	-	2	-	(218)
-	-	-	(3)	-	-	-	-	(127)
106	118	-	(4)	-	20	(62)	-	1,261

3 Segment information *continued*

(iii) Gross earned premiums

Year ended 31 December 2006	South Africa	United States	Europe	Other	Total £m
Long-term business – insurance contracts	**1,183**	**2,128**	**270**	**-**	**3,581**
Long-term business – investment contracts with discretionary participation features	**445**	**-**	**-**	**-**	**445**
Total long-term business	**1,628**	**2,128**	**270**	**-**	**4,026**
General insurance	**687**	**-**	**-**	**-**	**687**
Gross earned premiums	**2,315**	**2,128**	**270**	**-**	**4,713**
Long-term business – other investment contracts recognised as deposits	**1,737**	**216**	**7,645**	**-**	**9,598**

Year ended 31 December 2005	South Africa	United States	Europe	Other	Total £m
Long-term business – insurance contracts	1,191	2,110	-	-	3,301
Long-term business – investment contracts with discretionary participation features	482	-	-	-	482
Total long-term business	1,673	2,110	-	-	3,783
General insurance	690	-	-	-	690
Gross earned premiums	2.363	2,110	-	-	4,473
Long-term business – other investment contracts recognised as deposits	1,314	341	-	-	1,655

3 Segment information *continued*

(iv) Funds under management

At 31 December 2006	South Africa	United States	Europe	Other	Total £m
Long-term business policyholder funds	**20,817**	**11,750**	**38,233**	**1,219**	**72,019**
Unit trusts and mutual funds	**5,255**	**-**	**10,768**	**5,530**	**21,553**
Third party client funds	**12,950**	**121,634**	**1,926**	**5,013**	**141,523**
Total client funds under management	**39,022**	**133,384**	**50,927**	**11,762**	**235,095**
Shareholder funds	**2,072**	**925**	**1,291**	**50**	**4,338**
Total funds under management	**41,094**	**134,309**	**52,218**	**11,812**	**239,433**

At 31 December 2005	South Africa	United States	Europe	Other	Total £m
Long-term business policyholder funds	23,644	12,498	392	1,359	37,893
Unit trusts and mutual funds	4,343	-	-	2,013	6,356
Third party client funds	12,811	119,168	1,114	1,404	134,497
Total client funds under management	40,798	131,666	1,506	4,776	178,746
Shareholder funds	2,536	659	-	225	3,420
Total funds under management	43,334	132,325	1,506	5,001	182,166

4 Operating profit adjusting items

(i) Summary of adjusting items

In determining the adjusted operating profit of the Group adjustments are made to profit before tax to reflect the Directors' view of the underlying long-term performance of the Group. These items are summarised below:

Year ended 31 December 2006	Notes	South Africa	United States	Europe	Other	Total £m
Income / (expense)						
Goodwill impairment and impact of acquisition accounting	4(ii)	(8)	(22)	(256)	-	(286)
Profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	17	68	-	-	85
Short term fluctuations in investment return	4(iv)	339	(12)	(1)	-	326
Investment return adjustment for Group equity and debt instruments held in life funds	4(v)	(148)	-	-	-	(148)
Dividends declared to holders of perpetual preferred callable securities	4(vii)	-	-	-	39	39
Closure of unclaimed shares trusts	4(viii)	(115)	-	-	115	-
Total adjusting items		85	34	(257)	154	16
Tax on adjusting items	5(iii)	(47)	18	46	(4)	13
Minority interest in adjusting items	6(iii)	10	-	7	-	17
Total adjusting items after tax and minority interests		48	52	(204)	150	46

Year ended 31 December 2005	Notes	South Africa	United States	Europe	Other	Total £m
Income / (expense)						
Goodwill impairment and impact of acquisition accounting	4(ii)	(5)	(17)	-	-	(22)
Profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments	4(iii)	64	(6)	-	-	58
Short term fluctuations in investment return	4(iv)	359	4	-	-	363
Investment return adjustment for Group equity and debt instruments held in life funds	4(v)	(109)	-	-	-	(109)
Initial costs of Black Economic Empowerment schemes	4(vi)	(70)	-	-	(2)	(72)
Total adjusting items		239	(19)	-	(2)	218
Tax on adjusting items	5(iii)	(49)	6	-	-	(43)
Minority interest in adjusting items	6(iii)	(18)	-	-	-	(18)
Total adjusting items after tax and minority interests		172	(13)	-	(2)	157

4 Operating profit adjusting items *continued*

(ii) Goodwill impairment and impact of acquisition accounting

In applying acquisition accounting in accordance with IFRS deferred acquisition costs and revenue are not recognised. These are reversed in the acquisition balance sheet and replaced by goodwill, other intangible assets and the value of the acquired present value of in-force business ('acquired PVIF'). In determining its adjusted operating profit the Group recognises deferred revenue and acquisition costs in relation to policies sold by acquired businesses pre-acquisition, and excludes the impairment of goodwill and the amortisation of acquired other intangibles and acquired PVIF.

The amortisation of deferred costs and revenue for the Skandia businesses for the period since acquisition was £101 million. The amortisation of acquired PVIF for the Skandia businesses was £293 million over the same period.

Compared to the prior year, the exclusion of PVIF amortisation is a change in methodology in respect of calculating the adjusted operating profit of the Group's long-term business in the United States. Comparative information has been restated accordingly.

Goodwill impairment and acquisition accounting adjustments to adjusted operating profit are summarised below:

Year ended 31 December 2006	South Africa	United States	Europe	Other	Total £m
Amortisation of acquired PVIF					
Long-term business	-	22	293	-	315
Amortisation of acquired deferred costs and revenue					
Long-term business	-	-	(103)	-	(103)
Asset management	-	-	2	-	2
Amortisation of other acquired intangible assets					
Long-term business	-	-	56	-	56
Asset management	-	-	7	-	7
Banking	-	-	1	-	1
Goodwill impairment					
Banking	5	-	-	-	5
General insurance	3	-	-	-	3
	8	22	256	-	286

Year ended 31 December 2005	South Africa	United States	Europe	Other	Total £m
Amortisation of PVIF					
Long-term business	-	17	-	-	17
Goodwill impairment					
General insurance	5	-	-	-	5
	5	17	-	-	22

4 Operating profit adjusting items *continued*

(iii) Profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments

During 2006, the US asset management business disposed of its interests in affiliate asset managers resulting in a profit on disposal of £68 million.

During 2006, the Group's South African banking subsidiary disposed of its remaining investment in an IT finance solutions business resulting in a profit on disposal of £17 million. This followed the disposal of the first part of its strategic investment in this business in 2005, which recognised a profit of £68 million. In 2005 the South Africa banking business made other small disposals and write-offs of subsidiaries that recognised losses of £4 million.

Year ended 31 December 2006	South Africa	United States	Europe	Other	Total £m
Asset management	-	68	-	-	68
Banking	17	-	-	-	17
Profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments before tax	17	68	-	-	85

Year ended 31 December 2005	South Africa	United States	Europe	Other	Total £m
Asset management	-	(6)	-	-	(6)
Banking	64	-	-	-	64
Profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments before tax	64	(6)	-	-	58

4 Operating profit adjusting items *continued*

(iv) Long-term investment return

Profit before tax includes actual investment returns earned on the shareholder assets of the Group's long-term and general insurance businesses. Adjusted operating profit is stated after recalculating shareholder asset investment returns based on a long-term investment return rate. The difference between the actual and the long-term investment returns are short-term fluctuations in investment return.

Long-term rates of return are based on achieved real rates of return appropriate to the underlying asset base, adjusted for current inflation expectations and consensus economic investment forecasts, and are reviewed frequently, usually annually, for appropriateness. These rates of return have been selected with a view to ensuring that returns credited to adjusted operating profit are consistent with the actual returns expected to be earned over the long-term.

For South Africa long-term business, the return is applied to an average value of investible shareholders' assets, adjusted for net fund flows. For the Group's South Africa general insurance business, the return is an average value of the investible assets supporting shareholders' funds and insurance liabilities, adjusted for net fund flows. For US and Europe long-term businesses, the return is applied to average investible assets.

Long term investment rates	Year ended 31 December 2006	Year ended 31 December 2005
South Africa long-term business – weighted average return	11.3%	11.1%
South Africa general insurance – weighted average return	11.1%	11.1%
Equities	13.0%	13.0%
Cash and other investible assets – Rand denominated	9.0%	9.0%
Cash and other investible assets – other currencies	6.0%	6.0%
United States – weighted average	5.9%	5.9%
Europe long-term business – weighted average	4.6%	n/a

Analysis of short-term fluctuations in investment return

Year ended 31 December 2006	South Africa	United States*	Europe	Total £m
Long-term business				
Actual investment return attributable to shareholders	436	620	3	1,059
Less: long-term investment return	(150)	(632)	(4)	(786)
	286	(12)	(1)	273
General insurance business				
Actual investment return attributable to shareholders	101	-	-	101
Less: long-term investment return	(48)	-	-	(48)
	53	-	-	53
Total short-term fluctuations in investment return	339	(12)	(1)	326

*The actual investment return attributable to shareholders for the US long-term business reflects total investment income, as a distinction is not drawn between shareholder and policyholder funds.

4 Operating profit adjusting items *continued*

(iv) Long-term investment return

Year ended 31 December 2005	South Africa	United States	Europe	Total £m
Long-term business				
Actual investment return attributable to shareholders	411	587	-	998
Less: long-term investment return	(132)	(583)	-	(715)
	279	4	-	283
General insurance business				
Actual investment return attributable to shareholders	133	-	-	133
Less: long-term investment return	(53)	-	-	(53)
	80	-	-	80
Total short-term fluctuations in investment return	359	4	-	363

(v) Investment return adjustment for Group equity and debt instrument held in life funds

Adjusted operating profit includes investment returns on policyholder investments in Group equity and debt instruments by the Group's life funds. These include investments in the Company's ordinary shares, and the subordinated liabilities and ordinary securities of the Group's South Africa banking subsidiary. These investment returns are eliminated within the consolidated income statement in arriving at profit before tax, but are included in adjusted operating profit. In 2006 the total investment return attributable to such items was £148 million (2005: £109 million).

(vi) Initial costs of Black Economic Empowerment schemes

In 2005, the Group implemented Black Economic Empowerment schemes, which will ultimately increase black shareholdings in its South African businesses. Implementation of these schemes occurred in August 2005 and resulted in the issue of new ordinary shares in Old Mutual plc and its subsidiaries to various share trusts for the benefit of black employees within the Group and to a number of black controlled entities beneficially owned by black clients or distributors, black community groups and Black Business Partners in South Africa.

Upfront costs of £72 million incurred in the implementation of these schemes during 2005 were excluded from adjusted operating profit. These consisted of share-based payments charges in accordance with IFRS2, administration costs associated with implementation and running of the schemes and performance fees accrued in respect of the black business partners. The ongoing costs of these schemes are now included within the adjusted operating profit of the South African businesses.

(vii) Dividends declared to holders of perpetual preferred callable securities

Dividends declared to the holders of the Group's perpetual preferred callable securities were £39 million in the year ended 31 December 2006. These are recognised in finance costs on an accruals basis for the purpose of determining adjusted operating profit. In the IFRS financial statements this cost is recognized in equity.

4 Operating profit adjusting items *continued*

(viii) Closure of unclaimed shares trusts

On 31 May 2006 Old Mutual announced that the Old Mutual South Africa Unclaimed Shares Trust (UST) together with similar trusts set up in Namibia, Zimbabwe, Malawi and Bermuda, would be closed at the end of August 2006. It has been determined that the gross proceeds from the sale of unclaimed shares by these trusts will be paid to Old Mutual plc. Under the terms of the deeds establishing the USTs, the trustees of the USTs were required, following their termination, to liquidate the residual assets of the USTs and to distribute them in accordance with the directions given by Old Mutual plc. Following discussions with the South African National Treasury, the Company announced on 30 January 2007 that it intended, subject to shareholders approval at the Company's Annual General meeting in May 2007, to use substantially all of the proceeds realised to discharged late claims in cash for a further period of three years (to 31 August 2009), to fund good causes in the jurisdictions of the trust concerned or to enhance benefits for certain specific small policyholders of the Group's South African and Namibian life businesses The impact of the closure of these trusts has been reflected in the 2006 Group Financial Statements. Income of £115 million has been recognised by Old Mutual plc. Expenses of £115 million have been recognised by the Group's South Africa long-term business. The income relates to the anticipated receipt of sales proceeds from the trusts. The expenses relate to anticipated cost of the current proposals to discharge the Group's obligations following the closure of the trusts. This item has no impact on the profit before tax or adjusted operating profit of the Group, and has been excluded from the adjusted operating profit of Old Mutual plc and the Group's South Africa long-term business.

5 Income tax expense

(i) Analysis of total income tax expense

	Year ended 31 December 2006	£m Year ended 31 December 2005
Current tax		
United Kingdom tax		
Corporation tax	61	50
Double tax relief	(26)	(45)
Overseas tax		
South Africa	282	256
United States	16	-
Europe	54	1
Secondary Tax on Companies (STC)	36	17
Prior year adjustments	(3)	27
Total current tax	420	306
Deferred tax		
Origination of temporary differences	203	201
Changes in tax rates / bases	-	6
Write down / (recognition) of deferred tax assets	(2)	(29)
Total deferred tax	201	178
Total income tax expense	621	484

(ii) Reconciliation of total income tax expense

	Year ended 31 December 2006	£m Year ended 31 December 2005
Profit before tax	1,714	1,606
Tax at standard rate of 30% (2005: 30%)	514	482
Different tax rate or basis on overseas operations	(21)	(4)
Untaxed and low taxed income	(141)	(142)
Disallowable expenses	61	34
Net movement on deferred tax assets not recognised	19	9
STC	37	21
Income tax attributable to policyholder returns	173	89
Other	(21)	(5)
Total income tax expense	621	484

5 Income tax expense *continued*

(iii) Income tax on adjusted operating profit

	Year ended 31 December 2006	£m Year ended 31 December 2005
Income tax expense	**621**	484
Tax on adjusting items		
Impact of acquisition accounting	**52**	6
Profit on disposal of subsidiaries, associated undertakings and strategic investments	**8**	1
Short-term fluctuations in investment return	**(43)**	(55)
Initial costs of Black Economic Empowerment schemes	**-**	5
Income tax attributable to policyholders returns	**(239)**	(127)
Tax on dividends declared to holders of perpetual preferred callable securities recognised in equity	**(4)**	-
Income tax on adjusted operating profit	**395**	314

6 Minority interests – Income statement

(i) Minority interests – ordinary shares

The minority interest charge to profit for the financial year has been calculated on the basis of the Group's effective ownership of the subsidiaries in which it does not own 100 per cent of the ordinary equity. The principal subsidiaries where a minority exists are the Group's banking and general insurance businesses in South Africa and its newly acquired long-term, asset management and banking businesses in Europe. For the year ended 31 December 2006 the minority interest attributable to ordinary shares was £207 million (2005: £203 million).

(ii) Minority interests – preferred securities

		£m
	Year ended 31 December 2006	Year ended 31 December 2005
R2,000 million non-cumulative preference shares	**13**	14
R792 million non-cumulative preference shares	**5**	6
US$750 million cumulative preferred securities	**32**	32
Minority interest – preferred securities	**50**	52

(iii) Minority interests – adjusted operating profit

The following table reconciles minority interests' share of profit for the financial year to minority interests share of adjusted operating profit:

		£m
Reconciliation of minority interests share of profit for the financial year	**Year ended 31 December 2006**	Year ended 31 December 2005
The minority interest charge is analysed as follows:		
Minority interest – ordinary shares	**207**	203
Goodwill impairment and impact of acquisition accounting	**11**	1
Profit on disposal of subsidiaries, associated undertakings and strategic investments	**(7)**	(27)
Short-term fluctuations in investment return	**(9)**	(14)
Initial costs of Black Economic Empowerment schemes	**-**	13
Income attributable to Black Economic Empowerment trusts of listed subsidiaries	**22**	9
Minority interest – ordinary shares on adjusted operating profit	**224**	185

The Group uses revised weighted average effective ownership interests when calculating the minority interest applicable to the adjusted operating profit of its South Africa banking and general insurance businesses. This reflects the legal ownership of these businesses following the implementation for BEE schemes in 2005. In accordance with IFRS accounting rules the shares issued for BEE purposes are deemed to be, in substance, options. Therefore the effective ownership interest reflected in arriving at profit after tax in the consolidated income statement is lower than that applied in arriving at adjusted operating profit after tax. In 2006 the increase in adjusted operating profit attributable minority interests as a result of this was £22 million (2005: £9 million).

7 Earnings and earnings per share

(i) Basic and diluted earnings per share

Basic earnings per share is calculated by dividing the profit for the financial year attributable to ordinary equity shareholders by the weighted average number of ordinary shares in issue during the year excluding own shares held in policyholder funds, ESOP trusts, Black Economic Empowerment trusts and other related undertakings.

		£m
	Year ended 31 December 2006	Year ended 31 December 2005
Profit for the financial year attributable to equity holders of the parent	**836**	867
Dividends declared to holders of perpetual preferred callable securities	**(35)**	-
Profit attributable to ordinary equity holders	**801**	867

Total dividends declared to holders of perpetual preferred callable securities of £39 million in 2006 are stated net of tax credits of £4 million.

		Millions
	Year ended 31 December 2006	Year ended 31 December 2005
Weighted average number of ordinary shares in issue	**5,339**	3,951
Shares held in charitable foundations	**(19)**	(19)
Shares held in ESOP trusts	**(98)**	(92)
Adjusted weighted average number of ordinary shares	**5,222**	3,840
Shares held in life funds	**(292)**	(290)
Shares held in Black Economic Empowerment trusts	**(225)**	(94)
Weighted average number of ordinary shares	**4,705**	3,456
Basic earnings per ordinary share (pence)	**17.0**	25.1

Diluted earnings per share recognises the dilutive impact of share options held in ESOP trusts and Black Economic Empowerment trusts which are currently in the money in the calculation of the weighted average number of shares, as if the relevant shares were in issue for the full period.

		Millions
	Year ended 31 December 2006	Year ended 31 December 2005
Weighted average number of ordinary shares in issue	**4,705**	3,456
Adjustments for share options held by ESOP trusts	**62**	20
Adjustments for shares held in Black Economic Empowerment trusts	**225**	94
	4,992	3,570
Diluted earnings per ordinary share (pence)	**16.1**	24.3

7 Earnings and earnings per share *continued*

(ii) Adjusted operating earnings per ordinary share

Adjusted operating earnings per ordinary share is determined based on adjusted operating profit. Adjusted operating profit represents the Directors' view of the underlying performance of the Group. For long-term and general insurance business adjusted operating profit is based on a long-term investment return, includes investment returns on life funds' investments in Group equity and debt instruments and is stated net of income tax attributable to policyholder returns. For all businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, initial costs of Black Economic Empowerment schemes, the impact of closure of unclaimed shares trusts profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments, dividends declared to holders of perpetual preferred callable securities and income / (expenses) from closure of unclaimed share trusts.

The reconciliation of profit for the financial year to adjusted operating profit after tax attributable to ordinary equity holders is as follows:

	Notes	Year ended 31 December 2006	£m Year ended 31 December 2005
Profit for the financial year attributable to equity holders of the parent		**836**	867
Adjusting items	4(i)	**(16)**	(218)
Tax on adjusting items	5(iii)	**(13)**	43
Minority interest on adjusting items	6(iii)	**(17)**	18
Adjusted operating profit after tax attributable to ordinary equity holders		**790**	710
Adjusted weighted average number of ordinary shares – (millions)		**5,222**	3,840
Adjusted operating earnings per ordinary share – (pence)		**15.1**	18.5

8 Acquisitions of subsidiaries

On 26 January 2006, the Company's offer for Försäkringsaktiebolaget Skandia (publ) (Skandia) was declared unconditional. Settlement of acceptances received up to that date was effective on 3 February 2006, which resulted in the Company obtaining 72.1% of Skandia. The offer was extended and further acceptances were received and settled, on 17 February 2006 (17.4%), and on 23 March 2006 (8.7%), Consequently, following further permitted open market purchases the Group's interest in Skandia was 98.8% at 31 December 2006.

The Company has instigated a compulsory purchase of the remaining Skandia shares. The compulsory purchase proceedings are in progress. Access to the minority shares is anticipated to be completed during 2007.

Under the terms of the offer, consideration was paid to Skandia shareholders by way of a combination of cash and shares in Old Mutual plc. To date, cash consideration of £1,253 million has been paid by the Company and the Company has issued 1,389 million Old Mutual plc shares, with a fair value of £2,670 million.

The results of Skandia have been included in the financial statements of the Group from 1 February 2006.

Total revenue and profit before tax for the eleven months ended 31 December 2006 was £5,148 million and £89 million, respectively. The total revenue and profit before tax for the year ended 31 December 2006 was £5,309 million and £93 million respectively.

The fair value of the consideration paid for the Group's 98.8% holding in Skandia is as follows:

	£m Year ended 31 December 2006
Cash paid	**1,253**
Fair value of 1,389 million Old Mutual plc shares issued, based on the published prices at applicable dates of exchange	**2,670**
Costs of acquisition	**72**
Total consideration	**3,995**

The acquisition of Skandia in exchange for the Group's ordinary shares means that merger relief is applicable under section 131 of the Companies Act 1985. As a result during the year £2,532 million has been credited to the merger reserve within the Company's balance sheet.

8 Acquisitions of subsidiaries *continued*

The fair value of the assets and liabilities acquired were as follows:

				£m
	Book value	Fair value and accounting policy adjustments	Acquired intangibles	Fair value as reported at 31 December 2006
Assets				
Intangible assets	52	(41)	3,036	3,047
Deferred acquisition costs (DAC)	1,422	(1,422)	-	-
Deferred tax assets	40	(5)	-	35
Other assets	39,366	(270)	-	39,096
Total assets	40,880	(1,738)	3,036	42,178
Liabilities				
Deferred revenue liability (DRL)	1,214	(1,214)	-	-
Provisions	89	99	-	188
Contingent liabilities	-	63	-	63
Deferred tax liabilities	234	(109)	500	625
Other liabilities	38,426	(18)	-	38,408
Total liabilities	39,963	(1,179)	500	39,284
Net assets acquired	917	(559)	2,536	2,894
Less: Minority share of net assets acquired				(29)
Residual goodwill				1,130
Total consideration				3,995

The fair value of the net assets and acquired intangibles has been updated following revisions to original estimates in the fourth quarter of 2006. The calculation of residual goodwill will be finalised in 2007.

Separate intangible assets have been identified and valued at £3,036 million, using estimated post-tax cash flows and post-tax discount rates. These intangibles represent the value of the PVIF, the values of the Skandia distribution network, customer relationships in respect of non-life businesses, and the Skandia brand. No other intangibles were identified which were capable of reliable measurement. A deferred tax liability of £500 million has been provided for in respect of these intangible assets, based on the tax rates applicable in the various territories, on the grounds that the assets have no tax base, thereby creating temporary differences on which deferred tax must be provided.

The useful economic lives of the PVIF and other intangibles have been assessed, taking into account factors such as the usage of the asset, life cycles, obsolescence, maintenance, and period of control over the asset. PVIF and other intangible assets will be amortised over a period of between 10 and 20 years. Related deferred tax liabilities will be amortised in line with the amortisation of the particular intangible asset.

Other fair valuation adjustments principally comprise the derecognition of DAC, DRL and related balances (including deferred tax impacts thereon) on the basis that these items have no fair value at acquisition. These items are included in the calculation of the PVIF.

8 Acquisitions of subsidiaries *continued*

The remaining fair value and accounting policy adjustments relate to the derecognition of goodwill shown in Skandia's balance sheet, recognition at fair value of certain assets and liabilities previously recorded at amortised cost in Skandia's balance sheet, and other adjustments to reflect up to date estimates in respect of certain litigation issues and tax, including the recognition of certain contingencies.

Of the fair value and accounting policy adjustments shown above, £147 million relates to reductions in net assets determined in the final quarter of 2006 on the basis of new information that has become available subsequent to the publication of the Group interim financial statements to 30 June 2006.

The residual goodwill of £1,130 million represents the value of the Skandia workforce and synergies, both from increased revenues and reduced costs, expected to arise across the Skandia business and within our UK life assurance operations as a result of the acquisition. It also represents the value of new business growth and other customer intangible assets which cannot be reliably measured.

9 Provisions

	At 31 December 2006	At 31 December 2005
		£m
Surplus property	**41**	54
Client compensation	**8**	10
Warranties on sale of business	**113**	20
Liability for long service leave	**30**	35
Other provisions	**337**	123
	529	242
Post employment benefits	**13**	43
Total	**542**	285

Year ended 31 December 2006	Surplus property	Client compensation	Warranties on sale of business	Liability for long service leave	Other	Total £m
Balance at beginning of the year	**54**	**10**	**20**	**35**	**123**	**242**
Additions from business combinations	**3**	**-**	**102**	**-**	**146**	**251**
Unused amounts reversed	**(5)**	**(2)**	**(6)**	**-**	**(15)**	**(28)**
Unwind of discount	**2**	**-**	**-**	**-**	**-**	**2**
Charge to income statement	**1**	**1**	**-**	**3**	**136**	**141**
Utilised during the year	**(14)**	**(1)**	**(3)**	**(1)**	**(39)**	**(58)**
Foreign exchange and other movements	**-**	**-**	**-**	**(7)**	**(14)**	**(21)**
Balance at end of the year	**41**	**8**	**113**	**30**	**337**	**529**

At 31 December 2006 provisions in relation to sale of business were £113 million. These principally relate to warranties in respect of the sale of American Skandia to Prudential Financial, which were recognised by the Group upon acquisition.

At 31 December 2006 other provisions include £115 million in respect of the distribution of proceeds arising upon the closure of the unclaimed shares trusts. Further information is included in note 4 (viii). Also included in this amount are provisions for ongoing litigation across the Group totalling £71 million.

Year ended 31 December 2005	Surplus property	Client compensation	Warranties on sale of business	Liability for long service leave	Other	Total £m
Balance at beginning of the year	67	12	20	36	98	233
Unused amounts reversed	(2)	(3)	-	-	(5)	(10)
Unwind of discount	3	-	-	-	-	3
Charge to income statement	3	2	-	-	38	43
Utilised during the year	(16)	(3)	-	(1)	(6)	(26)
Foreign exchange and other movements	(1)	2	-	-	(2)	(1)
Balance at end of the year	54	10	20	35	123	242

10 Post balance sheet events

On 16 January 2007, the Company raised €750 million through the placement of callable note in accordance with the Company's £3.5 billion Euro Note Programme. Interest is fixed at 4.5% until 18 January 2012, and payable annually in arrear. Thereafter interest is floating and payable bi-annually in arrear at the six month EURIBOR plus 0.96 per cent. This instrument will be recognised as subordinated debt within the Group's 2007 financial statements.

On 2 February 2007 the Group’s United States asset management business acquired a majority interest in Ashfield Capital Partners, LLC.

On 5 February 2007 the Group’s South African banking subsidiary launched two subordinated Tier II bonds with a nominal value of R650 million fixed at 9.03 per cent, and R1 billion fixed at 8.90 per cent, callable on 8 February 2012 and 8 February 2014, respectively.

11 Dividends

Dividends paid were as follows:

	Year ended 31 December 2006	£m Year ended 31 December 2005
2004 Final dividend paid - 3.5 p per 10p share	**-**	118
2005 Interim dividend paid - 1.85 p per 10p share	**-**	66
2005 Final dividend paid – 3.65 p per 10p share	**174**	-
2006 Interim dividend paid – 2.1 p per 10p share	**108**	-
Dividends to ordinary equity holders	**282**	184
Dividends declared to holders of perpetual preferred callable securities	**39**	-
Dividend payments for the year	**321**	184

Dividends paid to ordinary equity holders, as above, are calculated using the number of shares in issue at the record date, less treasury shares held in ESOP Trusts, life funds of Group companies, Black Economic Empowerment trusts and related undertakings.

As a consequence of the exchange control arrangements in place in certain African territories, dividends to ordinary equity holders on the branch registers of those countries (or, in the case of Namibia, the Namibian section of the principal register) are settled through Dividend Access Trusts established for that purpose.

The Directors have declared a 2006 final dividend of 4.15p per share, which will be paid on 31 May 2007 to all ordinary equity holders on the register at the close of business on 11 May 2007, being the record date for the dividend. No provision has been recognised in respect of this dividend.

In March and November 2006, £22 million and £17 million respectively were declared and paid to holders of perpetual preferred callable securities (31 December 2005: £nil).

12 Contingent liabilities

	At 31 December 2006 (£m)	At 31 December 2005 (£m)
Guarantees and assets pledged as collateral security	**1,115**	1,016
Irrevocable letters of credit	**334**	756
Secured lending	**1,440**	1,528
Other contingent liabilities	**213**	110

Nedbank structured financing

Historically a number of the Group's South Africa banking businesses entered into structured finance transactions with third parties using the tax base of these companies. Pursuant to the terms of the majority of these transactions, the underlying third party has contractually agreed to accept the risk of any tax being imposed by the South African Revenue Service (SARS), although the obligation to pay in the first instance rests with the Group's companies. It is only in limited cases where, for example, the credit quality of a client becomes doubtful, or where the client has specifically contracted out of the re-pricing of additional taxes, that the recovery from a client could be less than the liability that could arise on assessment, in which case provisions are made. SARS has examined the tax aspects of some of these types of structures and SARS could assess these structures in a manner different to that initially envisaged by the contracting parties. As a result group companies could be obliged to pay additional amounts to SARS and recover these from clients under the applicable contractual arrangements.

Skandia Liv

Skandia Liv has submitted claims to Skandia totalling SEK 3.2 billion relating to compensation for alleged prohibited profit distributions. These distributions relate to the sale of Skandia Liv's asset management business by Skandia to Den Norske Bank in 2002. The dispute is in arbitration, a ruling is expected in 2007 or 2008.

American Skandia

The sale of American Skandia to Prudential Financial contained representation and warranties. Indemnity in respect of this is limited to US $1 billion. Investor class actions and investigations by various US regulators have given rise to potential settlements and claims. These principally relate to market timing and annuitisation. American Skandia's potential exposure to market timing is part of a wider investigation of the US industry. Annuitisation claims relate to administrative errors made by the American Skandia business between 1996 and 2003. Prudential Financial asserts that these have given rise to subsequent compensation claims from affected customers.

The fair value of Skandia net assets acquired include amount provided for in connection with the Skandia Liv and American Skandia exposure. Further details of the Group's provision are disclosed in note 9.

European Embedded Value Supplementary Information

for the year ended 31 December 2006

1 Income statement on a European embedded value basis

	Year ended 31 December 2006	£m Year ended 31 December 2005
South Africa		
Covered business	**489**	579
Asset management	**97**	85
Banking	**534**	421
General insurance	**82**	102
	1,202	1,187
United States		
Covered business	**98**	122
Asset management	**127**	118
	225	240
Europe		
Covered business	**394**	-
Asset management	**(1)**	(4)
Banking	**11**	-
	404	(4)
Other	**15**	20
	15	20
Finance costs	**(130)**	(37)
Other shareholders' income / (expenses)	**(29)**	(19)
Adjusted operating profit*	**1,687**	1,387
Adjusting items	**702**	636
Profit before tax (net of income tax attributable to policyholder returns)	**2,389**	2,023
Income tax attributable to shareholders	**(572)**	(485)
Profit for the financial year	**1,817**	1,538
Profit for the financial year attributable to:		
Equity holders of the parent	**1,531**	1,281
Minority interests		
Ordinary shares	**236**	205
Preferred securities	**50**	52
Profit for the financial year	**1,817**	1,538

* For long-term and general insurance business, adjusted operating profit is based on the expected investment return, includes investment returns on life funds' investments in Group equity and debt instruments and is stated net of income tax attributable to policyholder returns. For all businesses, adjusted operating profit excludes goodwill impairment, the impact of acquisition accounting, initial costs of Black Economic Empowerment schemes, the impact of closure of unclaimed shares trusts profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments and dividends declared to holders of perpetual preferred callable securities.

1 Income statement on a European Embedded Value basis *continued*

Adjusting items comprise:

	Year ended 31 December 2006	£m Year ended 31 December 2005
Income / (expense)		
Goodwill impairment and amortisation of non-covered business acquired intangible assets	**(15)**	(5)
Profit / (loss) on disposal of subsidiaries, associated undertakings and strategic investments	**84**	58
Short-term fluctuations in investment returns (including economic assumption changes)		
Covered business	**543**	524
Other	**53**	80
Cost of capital methodology and modelling changes	**55**	51
Material revision to actuarial models	**(57)**	-
Initial costs of Black Economic Empowerment schemes	**-**	(72)
Dividends declared to holders of perpetual preferred callable securities	**39**	-
Adjusting items	**702**	636

Adjusted operating profit after tax attributable to ordinary equity holders

	Year ended 31 December 2006	£m Year ended 31 December 2005
Adjusted operating profit	**1,687**	1,387
Tax on adjusted operating profit	**(469)**	(352)
	1,218	1,035
Minority interests		
Ordinary shares	**(239)**	(187)
Preferred securities	**(50)**	(52)
Adjusted operating profit after tax attributable to ordinary equity holders	**929**	**796**

Embedded value earnings per share attributable to ordinary equity holders of the parent	Year ended 31 December 2006	Pence Year ended 31 December 2005
Adjusted operating earnings per share*	**17.8**	20.7
Basic earnings per share	**32.5**	37.1
Adjusted weighted average number of shares – millions	**5,222**	3,840
Weighted average number of shares – millions	**4,705**	3,456

* EEV adjusted operating earnings per share is calculated on the same basis as EEV adjusted operating profit, but is stated after tax, and minority interests. It excludes income attributable to Black Economic Empowerment trusts of listed subsidiaries. The calculation of the adjusted weighted average number of shares includes own shares held in policyholders' funds and Black Economic Empowerment trusts.

1 Income statement on a European Embedded Value basis *continued*

	Year ended 31 December 2006	£m Year ended 31 December 2005
Adjusted operating profit for the covered business	**981**	701
South Africa	**489**	579
United States	**98**	122
Europe	**394**	-
Tax on adjusted operating profit for the covered business	**253**	191
South Africa	**127**	150
United States	**32**	41
Europe	**94**	-
Adjusted operating profit after tax for the covered business	**728**	510
South Africa	**362**	429
United States	**66**	81
Europe	**300**	-
Reconciliation of tax on adjusted operating profit		
Tax on adjusted operating profit for the covered business	**253**	191
Tax on adjusted operating profit for other business	**216**	161
Tax on adjusted operating profit	**469**	352

2 Reconciliation of movements in group embedded value

	Year ended 31 December 2006	£m Year ended 31 December 2005*
Group embedded value at beginning of the year	**5,808**	4,754
Exclusion of goodwill in respect of United States covered business	**-**	(59)
Restated group embedded value at beginning of the year	**5,808**	4,695
Change in equity arising in the year		
Fair value (losses) / gains	**71**	(77)
Currency translation differences / exchange differences on translating foreign operations	**(1,285)**	263
Cash flow hedge amortisation	**-**	(12)
Redemption of convertible bond	**-**	(18)
Aggregate tax effects of items taken directly to or transferred from equity	**3**	-
Other	**94**	(383)
Net income recognised directly into equity	**(1,117)**	(227)
Profit for the year	**1,531**	1,281
Total recognised income and expense for the year	**414**	1,054
Dividend for the year	**(321)**	(184)
Issue of share capital	**2,674**	159
Exercise of share options	**14**	4
Fair value equity settled share options	**28**	80
Exclusion of adjustment to include Skandia long-term business on a statutory solvency basis as at the date of acquisition	**(3,573)**	-
Acquired value of in-force business of Skandia after fair value opening adjustments	**2,073**	-
Group embedded value at end of the year	**7,117**	5,808

* The prior year results have been restated to:

(i) Exclude goodwill relating to United States long-term business of £58 million at 31 December 2006, (2005: £59 million). Any changes in value over the prior year results from, and is included in, currency translation differences.

(ii) Include the adjustment for market value of life funds' investments in Group equity and debt instruments in the adjusted net worth of the covered business of £502 million at 31 December 2006 (2005: £467 million).

(iii) Remove the perpetual preferred callable securities including accrued dividends of £668 million (2005: £699 million).

European Embedded Value Supplementary Information *continued*

for the year ended 31 December 2006

3 Components of group embedded value

	At 31 December 2006	£m At 31 December 2005
Adjusted net worth attributable to ordinary equity holders of the parent	**2,945**	3,829
Equity	**7,237**	4,751
Adjustment to include long-term business on a statutory solvency basis:		
South Africa	**108**	110
United States	**(742)**	(741)
Europe	**(2,456)**	-
Adjustment for market value of life funds' investments in Group equity and debt instruments held in life funds	**502**	467
Adjustment to remove perpetual preferred callable securities and accrued dividends	**(668)**	(699)
Adjustment to exclude acquisition goodwill and intangibles from the covered business:		
United States	**(58)**	(59)
Europe	**(978)**	-
Value of in-force business	**4,172**	1,979
Value of in-force business before items listed below	**4,648**	2,372
Additional time-value of financial options and guarantees	**(51)**	(49)
Cost of required capital	**(398)**	(340)
Minority interest in value of in-force	**(27)**	(4)
Group embedded value	**7,117**	5,808
Group embedded value per share – pence	**129.4**	142.0
Return on group embedded value (ROEV) per annum	**13.8%**	16.5%
Number of shares in issue – millions	**5,501**	4,090

1. The adjustments to include long-term business on a statutory solvency basis reflect the difference between the net worth of each business on the statutory basis (as required by the local regulator) and their portion of the Group's consolidated equity shareholders' funds. In South Africa, these values exclude items that are eliminated or shown separately on consolidation (such as Nedbank, Mutual & Federal and inter-company loans). For some European territories the value excludes deferred acquisition costs which are effectively part of the value of in-force between business.

2. The ROEV is calculated as the adjusted operating profit after tax and minority interests of £929 million plus accrued dividends to holders of perpetual preferred callable securities divided by the opening Group embedded value plus 11/12 of the embedded value of Skandia as of 1 February 2006.

3. The impact of marking all debt to market value is an increase of £61 million at 31 December 2006 and a reduction of £62 million as at 31 December 2005.

4 Components of adjusted embedded value

	At 31 December 2006	£m At 31 December 2005
Pro forma adjustments to bring Group investments to market value		
Group embedded value	**7,117**	5,808
Adjustment to bring listed subsidiaries to market value	**1,341**	1,101
South Africa banking business	**1,094**	880
South Africa general insurance business	**247**	221
Adjustment for present value of Black Economic Empowerment scheme deferred consideration	**188**	206
Adjusted Group embedded value	**8,646**	7,115
Adjusted Group embedded value per share – pence	**157.2**	174.0
Number of shares in issue – millions	**5,501**	4,090

European Embedded Value Supplementary Information *continued*

for the year ended 31 December 2006

5 Reconciliation of embedded value of the covered business with the adjusted embedded value

	At 31 December 2006	£m At 31 December 2005
Embedded value of the covered business	**6,453**	4,221
Adjusted net worth*	**2,281**	2,242
Value of in-force business**	**4,172**	1,979
Adjusted net worth of the asset management business	**1,458**	1,237
South Africa	**169**	151
United States	**1,112**	1,086
Europe	**177**	-
Market value of the banking business	**2,482**	2,050
South Africa	**2,231**	2,050
Europe	**251**	-
Market value of the general insurance business		
South Africa	**458**	614
Net other business	**50**	789
Adjustment for present value of Black Economic Empowerment scheme deferred consideration	**188**	206
Perpetual preferred securities (US$ denominated)	**(458)**	(458)
Perpetual preferred callable securities	**(688)**	(679)
£ denominated	**(350)**	(350)
Euro denominated	**(338)**	(329)
Debt	**(1,317)**	(845)
Rand denominated	**(219)**	(325)
US$ denominated	**(438)**	(475)
£ denominated	**(54)**	(45)
SEK denominated	**(594)**	-
Euro denominated	**(12)**	-
Accrued dividends to holders of perpetual preferred callable securities	**20**	(20)
Adjusted Group embedded value	**8,646**	7,115

* Adjusted net worth is after the elimination of inter-company loans.

** Net of minority interests.

6 Components of embedded value of the covered business

	At 31 December 2006	At 31 December 2005
		£m
Embedded value of the covered business	**6,453**	4,221
Adjusted net worth	**2,281**	2,242
Value of in-force business	**4,172**	1,979
South Africa		
Adjusted net worth	**1,425**	1,755
Required capital	**1,259**	1,569
Free surplus	**166**	186
Value of in-force business	**1,203**	1,301
Value of in-force business before items listed below	**1,393**	1,565
Additional time-value of financial options and guarantees	**-**	-
Cost of required capital	**(186)**	(260)
Minority interest in value of in-force	**(4)**	(4)
United States		
Adjusted net worth	**454**	487
Required capital	**390**	484
Free surplus	**64**	3
Value of in-force business	**690**	678
Value of in-force business before items listed below	**806**	807
Additional time-value of financial options and guarantees	**(47)**	(49)
Cost of required capital	**(69)**	(80)
Europe		
Adjusted net worth	**402**	-
Required capital	**260**	-
Free surplus	**142**	-
Value of in-force business	**2,279**	-
Value of in-force business before items listed below	**2,449**	-
Additional time-value of financial options and guarantees	**(4)**	-
Cost of required capital	**(143)**	-
Minority interest in value of in-force	**(23)**	-

The adjusted net worth excludes acquired intangibles and goodwill of the covered business.

7 Basis of preparation

This supplementary information has been prepared in accordance with the European Embedded Value (EEV) Principles issued in May 2004 by the European CFO Forum. The Directors acknowledge their responsibility for the preparation of this supplementary information.

The results for the year ended 31 December 2006 and the position at that date have been prepared on the same basis as that used in the 31 December 2005 EEV supplementary statements subject to the following changes:

(i) the Group embedded value now includes the adjustment for market value of life funds' investments in Group equity and debt instruments; and

(ii) the Group embedded value now excludes perpetual preferred callable securities and accrued dividends.

Covered business is defined as long-term business in the primary financial statements. This business covers traditional life insurance, long-term healthcare and accident insurance, savings, pensions and annuity business written by the life insurance subsidiaries. The results of Group companies providing administration and distribution services have been included to the extent that they relate to covered business. Following the acquisition of Skandia, covered business now includes the traditional life and unit-linked assurance business of Skandia. Institutional investment platform pension business written in United Kingdom has been excluded as it is more appropriately classified as mutual fund business. The results do not include services provided by Group investment management companies. Unallocated Group holding expenses have been included to the extent that they relate to the covered business.

For South Africa the covered business excludes individual unit trusts and some group market-linked business written by the asset management company through the life company as profits from this business arise in the asset management companies.

The treatment within this supplementary information of all business other than the covered business is the same as the primary financial statements.

Under the EEV methodology, profit is recognised as it is earned over the life of the products defined within the covered business.

The embedded value of the covered business is the sum of the shareholders' adjusted net worth in respect of the covered business and the value of the in-force covered business. The Group embedded value includes the value of all other business at the book value detailed in the primary financial statements. The adjusted embedded value, a measure used by the Directors to assess the shareholders' interest in the value of the Group, includes the Group's listed banking and general insurance subsidiaries at market value. The value of deferred consideration due in respect of Black Economic Empowerment partners is also included.

7 Basis of preparation *continued*

The adjusted net worth of the covered business is the market value of shareholders' assets held in respect of the covered business, and consists of the required capital and free surplus. The level of required capital of the covered business reflects the level of capital considered by the Directors to be appropriate to manage the business allowing for minimum local statutory requirements (or equivalent where there is no local requirement), their internal assessment of the market, insurance and operational risk inherent in the underlying products and the level of capital required by rating agencies in respect of our United States business in order to maintain the desired credit rating. The level of required capital is on average 147, 278 and 121 per cent of the minimum local statutory requirements in South Africa, United States and Europe respectively as at 31 December 2006. The free surplus comprises the market value of assets allocated to the covered business in excess of the required capital. The required capital in respect of the South Africa covered business is partially covered by the market value of the Group's investments in banking and general insurance in South Africa. On consolidation these investments are shown separately.

The value of in-force covered business is the present value at the appropriate risk discount rate (which incorporates a risk margin) of the statutory distributable profits to shareholders projected to arise from the in-force covered business on a best estimate basis, less a deduction for the cost of holding the required level of capital.

Statutory distributable profit arises from the difference between amounts charged to policyholders for guarantees, expenses and insurance and the actual experience of these items, together with the investment return earned on shareholders' assets.

Allowance has been made for the cost (intrinsic value) of financial options and guarantees to policyholders in the local statutory reserves according to local requirements. In South Africa and Europe an investment guarantee reserve on a stochastic basis is included in the local statutory reserves. A deduction from the value of in-force has been made to allow for the impact of future variability of investment returns on the cost of policyholder financial options and guarantees (time-value) to the extent that it is not already included in the statutory reserves. This time value has been determined using stochastic modelling techniques and represents the difference between the average value of shareholder cash flows under many generated economic scenarios and the deterministic shareholder value under the best estimate assumptions. In the generated economic scenarios allowance is made, where appropriate, for the effect of management and or policyholder actions in different circumstances.

The Directors believe that the embedded value of the covered business is broadly market-consistent.

8 Analysis of covered business embedded value results (after tax)

£m

Total covered business	Year ended 31 December 2006 Adjusted net worth	Year ended 31 December 2006 Value of in-force business	Year ended 31 December 2006 Total	Year ended 31 December 2005 Adjusted net worth	Year ended 31 December 2005 Value of in-force business	Year ended 31 December 2005 Total
Embedded value of the covered business at beginning of the year	**2,242**	**1,979**	**4,221**	2,081	1,474	3,555
Exclusion of goodwill in respect of the United States covered business				(59)	-	(59)
Acquired embedded value of Skandia	**391**	**2,085**	**2,476**	-	-	-
Opening fair value adjustments	**(47)**	**(12)**	**(59)**	-	-	-
	2,586	**4,052**	**6,638**	2,022	1,474	3,496
New business contribution	**(420)**	**664**	**244**	(91)	204	113
Expected return on existing business – return on value of in-force	**-**	**317**	**317**	-	187	187
Expected return on existing business – transfer to net worth	**625**	**(625)**	**-**	240	(240)	-
Experience variances	**12**	**16**	**28**	(7)	13	6
Operating assumption changes	**(1)**	**(98)**	**(99)**	(44)	110	66
Recalibration of risk-margins	**-**	**89**	**89**	-	-	-
Expected return on adjusted net worth	**149**	**-**	**149**	138	-	138
Adjusted operating profit after tax	**365**	**363**	**728**	236	274	510
Investment return variances on in-force business	**16**	**177**	**193**	20	92	112
Investment return variances on adjusted net worth	**298**	**-**	**298**	264	-	264
Effect of economic assumption changes	**(2)**	**(42)**	**(44)**	-	36	36
Material revision to actuarial models	**-**	**(38)**	**(38)**			
Methodology changes impacting cost of required capital	**-**	**46**	**46**	-	33	33
Profit after tax	**677**	**506**	**1,183**	520	435	955
Exchange rate movements	**(419)**	**(362)**	**(781)**	55	72	127
Change in minority interest	**(10)**	**(24)**	**(34)**	(4)	(2)	(6)
Net transfers from covered business	**(553)**	**-**	**(553)**	(351)	-	(351)
Embedded value of the covered business at end of the year	**2,281**	**4,172**	**6,453**	2,242	1,979	4,221

8 Analysis of covered business embedded value results (after tax) *continued*

£m

South Africa covered business	Year ended 31 December 2006 Adjusted net worth	Value of in-force business	Total	Year ended 31 December 2005 Adjusted net worth	Value of in-force business	Total
Embedded value of the covered business at the beginning of year	**1,755**	**1,301**	**3,056**	1,566	1,030	2,596
New business contribution	**(15)**	**87**	**72**	(22)	84	62
Expected return on existing business – return on value of in-force	**-**	**139**	**139**	-	137	137
Expected return on existing business – transfer to net worth	**179**	**(179)**	**-**	185	(185)	-
Experience variances	**1**	**(15)**	**(14)**	52	(8)	44
Operating assumption changes	**11**	**(27)**	**(16)**	3	62	65
Recalibration of risk-margins	**-**	**59**	**59**	-	-	-
Expected return on adjusted net worth	**122**	-	**122**	121	-	121
Adjusted operating profit after tax	**298**	**64**	**362**	339	90	429
Investment return variances on in-force business	**9**	**116**	**125**	18	99	117
Investment return variances on adjusted net worth	**294**	**-**	**294**	264	-	264
Effect of economic assumption changes	**(2)**	**(23)**	**(25)**	-	40	40
Methodology changes impacting cost of required capital	**-**	**19**	**19**	-	33	33
Profit after tax	**599**	**176**	**775**	621	262	883
Exchange rate movements	**(355)**	**(273)**	**(628)**	5	11	16
Change in minority interest	**(6)**	**(1)**	**(7)**	(4)	(2)	(6)
Net transfers from covered business	**(568)**	**-**	**(568)**	(433)	-	(433)
Embedded value of the covered business at end of the year	**1,425**	**1,203**	**2,628**	1,755	1,301	3,056
Return on embedded value (ROEV) per annum			**13.6%**			17.6%

South Africa covered business

The segment results of South Africa include the Old Mutual Life Assurance Company Namibia and Old Mutual International (Guernsey), both of which are managed by the South African operations.

Experience variances were impacted by the one-off historic adjustments announced in September 2006 quarterly results, an increased spend on some key initiatives and negative retention experience in group and healthcare business.

The main operating assumption changes are the positive effects of reduction in the provision for future individual business maintenance expenses, which was offset by an increase in provision for group business terminations and maintenance expenses.

The risk-margin recalibration exercise resulted in a reduction from 2.3 to 2 per cent.

The methodology changes impacting cost of required capital reflects modelling improvements to the required capital which reduced the cost of required capital.

The net transfers from covered business include a provision related to the closure of the unclaimed shares trusts, an increased investment in the Old Mutual plc loan note, the purchase of additional shares in Nedbank, dividend payments, as well as head office expenses.

The embedded value for South Africa is after the adjustment for market value of life funds' investments in Group equity and debt instruments.

Return on embedded value is the adjusted operating profit after tax divided by opening embedded value in SA Rands.

8 Analysis of covered business embedded value results (after tax) *continued*

						£m
	Year ended 31 December 2006			Year ended 31 December 2005		
United States covered business	**Adjusted net worth**	**Value of in-force business**	**Total**	Adjusted net worth	Value of in-force business	Total
Embedded value of the covered business at beginning of the year	**487**	**678**	**1,165**	515	444	959
Exclusion of goodwill in respect of US covered business				(59)	-	(59)
	487	**678**	**1,165**	456	444	900
New business contribution	**(128)**	**173**	**45**	(69)	120	51
Expected return on existing business – return on value of in-force	**-**	**62**	**62**	-	50	50
Expected return on existing business – transfer to net worth	**76**	**(76)**	**-**	55	(55)	-
Experience variances	**(11)**	**1**	**(10)**	(59)	21	(38)
Operating assumption changes	**(12)**	**(44)**	**(56)**	(47)	48	1
Recalibration of risk-margins	**-**	**10**	**10**	-	-	-
Expected return on adjusted net worth	**15**	**-**	**15**	17	-	17
Adjusted operating profit after tax	**(60)**	**126**	**66**	(103)	184	81
Investment return variances on in-force business	**-**	**18**	**18**	2	(7)	(5)
Investment return variances on adjusted net worth	**(3)**	**-**	**(3)**	-	-	-
Effect of economic assumption changes	**-**	**(15)**	**(15)**	-	(4)	(4)
Material revision to actuarial models	**-**	**(38)**	**(38)**			
Methodology and modelling changes impacting cost of required capital	**-**	**9**	**9**	-	-	-
Profit after tax	**(63)**	**100**	**37**	(101)	173	72
Exchange rate movements	**(61)**	**(88)**	**(149)**	50	61	111
Net transfers to covered business	**91**	**-**	**91**	82	-	82
Embedded value of the covered business at end of the year	**454**	**690**	**1,144**	487	678	1,165
Return on embedded value (ROEV) per annum			**6.1%**			8.5%

United States covered business

The segment results of United States include Old Mutual Reassurance (Ireland) Limited (OMRe), which provides reinsurance to the United States life companies, and Old Mutual (Bermuda) Limited.

The negative experience variance mainly arose from mortality losses on single premium immediate annuities.

The main operating assumption changes include a strengthening of the assumed rate of usage of the penalty free withdrawal option in the deferred annuity product, strengthening of mortality assumptions on single premium immediate annuities and changes to the credited rates for multi-year guaranteed annuities.

The risk-margin recalibration exercise resulted in a reduction from 3.2 to 3 per cent.

The actuarial models used to calculate the embedded value have been replaced and upgraded. This resulted in a reduction in embedded value of £38 million.

The methodology changes impacting cost of required capital reflects changes in the definition of required capital in OMRe and Old Mutual (Bermuda) Limited to that appropriate to manage the business.

The transfer to covered business is in respect of capital injections and head office expenses.

Return on embedded value is the adjusted operating profit after tax divided by opening embedded value in US Dollars.

8 Analysis of covered business embedded value results (after tax) *continued*

Europe covered business	Adjusted net worth	Value of in-force business	Total
			£m
	Year ended 31 December 2006		
Embedded value of covered business at beginning of the period			
Acquired embedded value of Skandia	391	2,085	2,476
Opening fair value adjustments	(47)	(12)	(59)
	344	2,073	2,417
New business contribution	(277)	404	127
Expected return on existing business – return on value of in-force	-	116	116
Expected return on existing business – transfer to net worth	370	(370)	-
Experience variances	22	30	52
Operating assumption changes	-	(27)	(27)
Recalibration of risk-margins	-	20	20
Expected return on adjusted net worth	12	-	12
Adjusted operating profit after tax	127	173	300
Investment return variances on in-force business	7	43	50
Investment return variances on adjusted net worth	7	-	7
Effect of economic assumption changes	-	(4)	(4)
Methodology changes impacting cost of required capital	-	18	18
Profit after tax	141	230	371
Exchange rate movements	(3)	(1)	(4)
Change in minority interest	(4)	(23)	(27)
Net transfers from covered business	(76)	-	(76)
Embedded value of the covered business at end of the period	402	2,279	2,681
Return on embedded value (ROEV) per annum			13.5%

Europe covered business

The segmental results of Europe include the Skandia Life companies in the United Kingdom, Nordic region, Europe and Latin America.

The positive experience variances mainly arose from a higher level of fee income than that assumed, which was partially offset by negative expense variances from the Nordic and Latin America regions.

The main operating assumption changes are a strengthening of persistency assumptions in Europe, and increase in provision for future maintenance expenses in the Nordic and Europe and Latin America regions.

The risk-margin recalibration exercise resulted in a 10 basis points reduction in UK, 10 basis points reduction in the Nordic region, and 10-50 basis points reduction in the Europe and Latin America region. For Nordic, the risk margin was then increased by 20 basis points on account of a release of required capital.

The methodology changes impacting cost of required capital mainly reflect a reduction in the amount of required capital in the Nordic region, as mentioned in the previous paragraph.

The transfers from covered business include repayment of internal financing arrangements as well as head office expenses.

Return on embedded value is the adjusted operating profit after tax divided by opening embedded value in Sterling.

9 Value of new business (after tax)

The tables below set out the geographic analysis of the value of new business (VNB) after tax. Annual premium equivalent (APE) is calculated as recurring premiums plus 10 per cent of single premiums. New business profitability is measured by both the ratio of the VNB to the APE as well as to the present value of new business premiums (PVNBP), and shown under APE margin and PVNB margin below. PVNBP is defined as the present value of regular premiums plus single premiums for any given period and is calculated on the same assumptions as for the value of new business contribution.

	Year ended 31 December 2006	£m Year ended 31 December 2005
Recurring premiums		
South Africa*	**234**	239
United States	**64**	81
Europe**	**357**	-
	655	320
Single premiums		
South Africa*	**1,580**	1,183
United States	**1,977**	2,086
Europe**	**5,240**	-
	8,797	3,269
APE		
South Africa*	**392**	358
United States	**262**	290
Europe**	**881**	-
	1,535	648
PVNBP		
South Africa*	**2,734**	2,380
United States	**2,284**	2,477
Europe**	**6,874**	-
	11,892	4,857
VNB		
South Africa*	**72**	62
United States	**45**	51
Europe**	**127**	-
	244	113

9 Value of new business (after tax) *continued*

	Year ended 31 December 2006	Year ended 31 December 2005
APE margin		
South Africa*	**18%**	17%
United States	**17%**	18%
Europe**	**14%**	-
Average	**16%**	17%

PVNBP margin		
South Africa*	**2.6%**	2.6%
United States	**2.0%**	2.1%
Europe**	**1.8%**	-
Average	**2.1%**	2.3%

* Gross of minority interests.

** For the period from 1 February 2006.

The value of new unit trust linked retirement annuities and pension fund asset management business written by the South Africa long-term business, which amounted to £409 million in the year ended 31 December 2006, is excluded as the profits on this business arise in the asset management business. The value of new business also excludes premium increases arising from indexation arrangements in respect of existing business, as these are already included in the value of in-force business.

The value of new institutional investment platform pensions business written in the United Kingdom, which amounted to £64 million in the year ended 31 December 2006, is excluded as this is more appropriately classified as mutual fund business.

European Embedded Value Supplementary Information *continued*

for the year ended 31 December 2006

10 Product analysis of new covered business premiums

£m

South Africa	Year ended 31 December 2006 Recurring	Single	Year ended 31 December 2005 Recurring	Single
Total business	**234**	**1,580**	239	1,183
Individual business	**203**	**930**	184	795
Savings	**55**	**766**	58	635
Protection	**74**	**5**	63	6
Annuity	**-**	**157**	-	153
Group Schemes	**74**	**2**	63	1
Group business	**31**	**650**	55	388
Savings	**3**	**494**	5	248
Protection	**9**	**1**	14	-
Annuity	**-**	**155**	-	140
Healthcare	**19**	**-**	36	-
Total business*	**234**	**1,580**	239	1,183
Individual business	**203**	**930**	184	795
Insurance contracts	**118**	**151**	101	151
Investment contracts with discretionary participating features	**42**	**23**	40	21
Other investment contracts	**43**	**756**	43	623
Group business	**31**	**650**	55	388
Insurance contracts	**28**	**156**	50	140
Investment contracts with discretionary participating features	**3**	**110**	5	149
Other investment contracts	**-**	**384**	-	99

£m

United States	Year ended 31 December 2006 Recurring	Single	Year ended 31 December 2005 Recurring	Single
Total business	**64**	**1,977**	81	2,086
Fixed deferred annuity	**-**	**81**	-	32
Equity indexed annuity	**-**	**1,161**	-	1,265
Variable annuity	**-**	**574**	-	394
Life	**64**	**-**	81	-
Immediate annuity	**-**	**161**	-	319
Other (corporate)	**-**	**-**	-	76
Total business*	**64**	**1,977**	81	2,086
Insurance contracts	**64**	**1,761**	81	1,744
Other investment contracts	**-**	**216**	-	342

10 Product analysis of new covered business premiums *continued*

Europe**	Year ended 31 December 2006 Recurring	£m Single
Total business		
	357	**5,240**
Unit-linked assurance	**348**	**5,219**
Life	**9**	**21**

* The classification of insurance contracts, investment contracts with discretionary participating features and other investment contracts is in accordance with the primary financial statements definitions. All categories of business are subject to EEV accounting.

** Gross of minority interests for the period from 1 February 2006.

11 Assumptions

Introduction

The principal assumptions used in the calculation of the value of in-force business and VNB are set out below. The assumptions are best estimate and actively reviewed.

- Both operating profit and VNB are calculated on closing assumptions.
- The effect of increases in premiums over the period for policies in-force has been included in the value of in-force business only where such increases are associated with indexation arrangements. Other increases in premiums of existing policies are included in VNB.
- New schemes written on which recurring single premiums are expected to be received on a regular basis are treated as new business. The annualised premium is recognised as recurring premium new business at inception of the scheme and is determined by annualising the actual premiums received during the year in question. Subsequent recurring single premiums received in future years are not treated as new business, as these have already been provided for in calculating the value of in-force business.
- VNB has been accumulated to the year end.
- The sensitivity of the embedded value, the value of in-force and VNB to key assumptions are set out in note 12.

11 Assumptions *continued*

Economic assumptions

South Africa	At 31 December 2006	At 31 December 2005
Risk-free rate (10 year Government bond)	**7.9%**	7.6%
Cash return	**5.9%**	5.6%
Equity return	**11.4%**	11.1%
Property return	**9.4%**	9.1%
Expense Inflation	**4.9%**	4.6%
Traditional embedded value risk discount rate[1]	**10.8%**	10.8%
Risk free rate	**7.9%**	7.6%
Risk margin[2]	**2.0%**	2.3%
Cost of financial options and guarantees[3]	**0.0%**	0.2%
Cost of required capital in excess of statutory minimum[4]	**0.9%**	0.7%

United States	At 31 December 2006	At 31 December 2005
Risk free rate (10 year Treasury yield)	**4.7%**	4.4%
Expense Inflation	**3.0%**	3.0%
New money yield assumed	**5.7%**	5.5%
Net portfolio earned rate	**5.8%**	5.6%
Traditional embedded value risk discount rate	**9.8%**	10.4%
Risk free rate	**4.7%**	4.4%
Risk margin	**3.0%**	3.2%
Cost of financial options and guarantees	**1.0%**	1.0%
Cost of required capital in excess of statutory minimum	**1.1%**	1.8%

[1] This is the risk discount rate that would be applicable on a traditional embedded value basis if the calculations did not allow for the time value of options and guarantees and required capital in excess of the statutory minimum.

[2] Risk margin is net of the risk allowance for the time value of financial options and guarantees and for the required capital in excess of statutory minimum

[3] This is the time value of financial options and guarantees not allowed for in statutory reserves

[4] This is the margin for the cost of holding required capital in excess of the statutory minimum

European Embedded Value Supplementary Information *continued*

for the year ended 31 December 2006

11 Assumptions *continued*

Europe	At 31 December 2006
United Kingdom	
Risk-free rate (10 year Government bond)	4.6%
Cash return	3.6%
Property return	6.1%
Equity return	7.5%
Expense Inflation	4.3%
Traditional embedded value risk discount rate	7.1%
Risk free rate	4.6%
Risk margin	2.1%
Cost of financial options and guarantees	-
Cost of required capital in excess of statutory minimum	0.4%
Sweden	
Risk-free rate (10 year Government bond)	3.8%
Cash return	2.8%
Equity return	6.8%
Property return	5.3%
Expense Inflation	3.1%
Traditional embedded value risk discount rate	6.9%
Risk free rate	3.8%
Risk margin	3.1%
Cost of financial options and guarantees	-
Cost of required capital in excess of statutory minimum	-
Rest of Europe and Latin America	
Risk-free rate (10 year Government bond)	2.5% - 5.5%
Cash return	1.5% - 4.5%
Equity return	5.5% - 8.5%
Property return	4.0% - 7.0%
Expense Inflation	1.8% - 3.0%
Traditional embedded value risk discount rate	4.0% - 7.5%
Risk free rate	2.5% - 5.5%
Risk margin	1.4% - 3.1%
Cost of financial options and guarantees	-
Cost of required capital in excess of statutory minimum	0.0% - 3.0%

11 Assumptions *continued*

- The pre-tax investment and economic assumptions are updated every three months to reflect the economic conditions prevailing on the valuation date. Risk-free rates have a duration similar to that of the underlying liabilities. Equity and property risk premiums incorporate both historical relationships and the Directors' view of future projected returns in each geography.
- The risk margins have been calculated using a bottom-up market consistent approach, and reflect the distinctive risks of the products in the respective business units. These risk margins do not include the risk associated with financial options and guarantees.
- Where applicable, rates of future bonuses or crediting rates have been set at levels consistent with the investment return assumptions. Projected taxation is based on the current tax basis that applies in each country.
- For the South Africa business projected taxation is based on the current tax basis that applies in each country. Full allowance has been made for secondary tax on companies (STC) that may be payable in South Africa. Full account has been taken of the impact of capital gains tax. It has been assumed that 10 per cent of the equity portfolio (excluding Group subsidiaries) will be traded each year. The effective tax rate was 35 per cent, except for the investment return on capital for which the attributed tax was derived from the primary accounts.
- For the United States full allowance has been made for existing tax attributes of the companies, including the use of existing carry-forwards and preferred tax credit investments. The effective rate was 33 per cent.
- For the Europe businesses, projected tax is based on the current tax rate that applies in each country. In Sweden, no allowance has been made for additional tax on dividends remitted to the UK. Tax has however been allowed for on dividends to be remitted to the UK from the Isle of Man. The effective tax rates for Nordic, United Kingdom and the rest of Europe were a range of 2 to 28 per cent, 29.8 per cent and a range of 9.1 to 43.1 per cent.

Risk Margins

The risk margins were recalibrated as at 31 December 2006. The risk margin in each geography above the risk-free rates as at 31 December 2006 for the South African, United States and Europe life covered businesses were 2.0, 3.0 and 1.4 to 3.1 per cent respectively.

Compared to the previous recalibration exercise, the recalibration of risk margins in South Africa and the United States has resulted in reductions of 30 and 20 basis points, respectively, reflecting the changed mix of business and product design of the new business. For South Africa, the reduction in risk margin is also due to the expected cost of financial options and guarantees being provided for in the liabilities, and due to higher equity market levels, higher interest rates and a lower market consistent equity volatility parameters compared to the previous calibration

The risk margins for the risk associated with the time value of financial options and guarantees and the allowance for required capital in excess of the statutory minimum have been presented separately.

Non-economic assumptions:

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

11 Assumptions *continued*

- The management expenses attributable to life assurance business have been analysed between expenses relating to the acquisition of new business and the maintenance of business in-force. The future expenses attributable to life assurance business include 32 per cent of the Group holding company expenses, with 13 per cent allocated to South Africa, 4 per cent allocated to United States and 14 per cent allocated to Europe.
- The allocation of these expenses aligns to the proportion that the management expenses incurred by the business bears to the total management expenses incurred in the Group.
- No allowance has been made for future productivity improvements in the expense assumptions.
- Future investment expenses are based on the current scales of fees payable by the life assurance companies to the asset management subsidiaries. To the extent that these fees include profit margins for the asset management subsidiaries, these margins have not been included in the value of in-force business or VNB.

Required capital:

- For the South Africa business, the required capital is calculated for each of the major business units. The non-investment items are based on a multiple of the non-investment components of the local Statutory Capital Adequacy Requirements set out in PGN104 issued by the Actuarial Society of South Africa (ASSA). The investment item is based on internal models developed for capital allocation and pricing purposes. The models project assets and liabilities for the business forward for 10 years using stochastically determined investment returns on a realistic basis. Bonus rates and adjustments to non-vested bonuses are determined using a consistent formula based on a weighted average of past returns and the level of the Bonus Smoothing Account (BSA) at the time. To the extent that the BSA falls to lower than normally allowable minimum levels, the shareholder is considered to be required to provide support to the business. The capital requirement, based on the discounted value of the maximum shareholder support required, is determined using a conditional tail expectation at the 97.5 percentile level (the December 2005 calculation was based on the 99^{th} worst percentile case: these are equivalent). The required capital is invested in local equities, local cash and international cash. The asset allocation as at 31 December 2006 is 60, 33 and 7 per cent respectively.
- The required capital of Old Mutual International, based in Guernsey, is set at the greater of 1 per cent of funds under management and £10 million, a level considered by the Directors to be appropriate to manage the business. The required capital is invested in short-dated fixed interest assets.
- For the United States business, the required capital is based on the multiple of the local Risk Based Capital (RBC) requirement that management deems necessary to maintain the desired credit rating for the company in question. The multiples vary by company from 200 to 300 per cent and average 284 per cent as at 31 December 2006. The required capital for OMNIA (Bermuda) Limited and Old Mutual Reassurance (Ireland) Limited in Ireland is based on the level of capital considered by management appropriate to manage the business which is calculated as 125 per cent of United States RBC calculated on local reserves, subject to a minimum of local statutory requirements. The required capital for the United States business is invested in fixed interest assets.

11 Assumptions *continued*

- For the Europe businesses the required capital reflects the level of capital considered by management appropriate to manage the business allowing for local minimum statutory requirements. In certain regions, for example Nordic, statutory capital is partially covered by the deferred acquisition costs which are implicitly included in the value of in-force business rather than the adjusted net worth. The required capital is invested in short and medium-term fixed interest assets.

Financial options and guarantees

South Africa

- The time-value of the financial options and guarantees included in the statutory reserves in the Africa businesses have been valued using a random walk, log-normal "real world" stochastic asset model that is in keeping with the applicable professional guidance notes issued by ASSA. The time-value reserves relate mainly to the guarantees detailed below:

Individual business:

- A closed block of unit-linked type and with-profit business has an underlying minimum growth rate guarantee (4.28 per cent per annum for life and endowment business and 4.78 per cent per annum for retirement annuity business) applicable when calculating death, disability and maturity claims.
- A small block of with-profits business guarantees minimum values to the policyholder at a point in time, generally five years from inception. If the guarantee is not exercised, another guarantee may be set.
- A small block of with-profits savings business in Group Schemes that has death guarantees of premiums (net of fees) plus 4.25 per cent per annum investment return.
- Retirement annuities sold prior to June 1997 contain guaranteed annuity options, whereby the policyholder has an option to exchange full retirement proceeds for a minimum level of annuity income at maturity.
- In addition, with-profits business has vested bonus guarantees at certain future dates which operate in conjunction with the options and guarantees set out above.

Group business:

- There is a significant pre-retirement savings with-profits portfolio. Vested bonuses affect the calculation of benefit payments when a member exits from the scheme as the face value is paid out. If a scheme terminates, the lower of face and market value is paid out and the vested bonuses are not guaranteed.
- A significant with-profits annuity in payment portfolio guarantees annuity payments once declared for the life-time of the annuitant.

Key assumptions:

- The mean returns and volatilities of the asset classes incorporated in the stochastic asset model are detailed below. Correlations between asset classes have been based on an internal assessment of historical relationships.

11 Assumptions *continued*

	Mean*		Standard deviation**	
	31 December 2006	31 December 2005	**31 December 2006**	31 December 2005
Equity	**11.4%**	13.8%	**22%**	22%
Property	**9.8%**	10.3%	**15%**	15%
Fixed interest (20 year)	**7.9%**	8.5%	**13%**	13%
Cash	**6.0%**	5.6%	**3%**	3%

* Means have been calculated using the weighted arithmetic average across all scenarios. The arithmetic means equivalent to the geometric means that were quoted in the December 2005 Annual Report and Accounts are shown for 2005 in the table above.

** Standard deviations have been calculated by accumulating returns for the required period in each scenario, taking the natural log of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.

- As at 31 December 2006 the investment guarantee reserves held as part of the value of liabilities, which included allowance for reasonable management actions and a realistic take-up rate on guaranteed annuity options, were sufficient to cover the time value of options and guarantees. There is therefore no separate cost deduction from the value of in-force business. In practice, at this year end, the reserves held were demonstrated to be consistent with the value that would be obtained using the model above.

United States

- The time value of financial options and guarantees in the United States businesses are valued using a proprietary economic scenario generator. A "real world" stochastic model has been used with the initial position of the yield curve calibrated to 17 US$ denominated index-linked government bond prices. Interest rate scenarios are floored at zero per cent and capped at 30 per cent.

- Crediting rates declared for the fixed deferred annuity block of business vest fully. They are subject to a minimum crediting rate which is specified in the contract. Minimum surrender values are determined by this rate.

- Equity indexed annuities offer minimum crediting rates on the fixed portion of the product, minimum surrender values based on this and credit equity participation annually as a percentage of equity growth subject to a maximum. This equity participation, which is subject to a minimum of 0 per cent therefore vests annually.

- The variable annuities offered to off-shore customers through Old Mutual Bermuda can offer minimum death benefit guarantees. Death benefits are subject to a minimum of the sum invested or value at any anniversary date if greater. A small proportion of variable annuity clients elect a minimum guaranteed account value on maturity.

- Notwithstanding the comments above regarding the vesting of credited interest, deferred annuities are subject to surrender charges as specified in the contracts.

- The universal life policies specify a minimum crediting rate to accumulate account balances.

- All deferred annuities offer a guaranteed annuitisation option on maturity. The rates are set conservatively and typically have very low utilisation as customers in the United States value the choice inherent in a lump-sum payment. The reserves for financial options and guarantees assume that the low historical take-up rates of around 1 per cent per annum will continue into the future, and are therefore insignificant.

11 Assumptions *continued*

- Certain of the universal life contracts contain a feature that guarantees that the contract will continue, even if values would otherwise be insufficient, provided the customer has paid at least a stated amount of premium.

- The mean returns and volatilities of treasuries along the yield curve are detailed below. The mean-reversion to higher future interest rates inherent in the model is consistent with long-term historical patterns. The interest rate scenarios generated by the model range from zero to 30 per cent.

	Mean interest rate*		Standard deviation***	
Treasuries	**31 December 2006**	31 December 2005**	**31 December 2006**	31 December 2005
6 months	**4.7%**	4.7%	**4.3%**	2.8%
1 year	**4.7%**	5.0%	**4.3%**	2.8%
5 year	**4.9%**	5.5%	**4.1%**	2.5%
10 year	**5.1%**	5.8%	**3.9%**	2.4%
20 year	**5.3%**	6.0%	**3.0%**	2.3%

* The means are calculated using the unweighted arithmetic average return across all scenarios.

** Equivalent arithmetic means to the geometric means quoted in the December 2005 Annual Report and Accounts.

*** Standard deviations can be calculated by accumulating returns for the required period in each scenario, taking the natural log of the result, calculating the variance of this statistic, dividing by the projection period (n years) and taking the square root. This makes the result comparable to implied volatilities quoted in investment markets.

Europe

- While certain products within the Europe businesses provide financial options and guarantees, these are immaterial due to the predominantly unit-linked nature of the business except in the Nordic region where the value of certain financial options and guarantees have been taken in the opening fair value adjustments.

12 Sensitivity test

The tables below for South Africa, United States and Europe show the sensitivity of the embedded value and value of in-force at 31 December 2006 and VNB for the year ended 31 December 2006 to changes in key assumptions. All calculations include the impact on the time-value reserves necessary for policyholder financial options and guarantees. For each sensitivity illustrated, all other assumptions have been left unchanged.

The sensitivity showing the impact of one per cent increase in the yield on equities / property (as a change in the equity / property risk premium) is not given below as a bottom-up market consistent approach has been adopted for calibrating discount rates.

	31 December 2006		£m
South Africa	Embedded value	Value of in-force business	VNB
Central assumptions	2,628	1,203	72
Effect of:			
Central discount rate increasing by 1 per cent	2,461	1,036	60
Required capital equal to the minimum statutory requirement	2,680	1,255	76
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	2,562	1,137	66
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	2,699	1,274	79
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	2,764	1,254	-
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	2,492	1,153	-
Voluntary discontinuance rates decreasing by 10 per cent	2,668	1,243	82
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	2,698	1,273	78
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	2,682	1,257	79
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges**	2,618	1,193	71
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	-	-	67

* Portfolios are assumed to be rebalanced after the increase or decrease in equity and property market values at 31 December 2006.

** No impact on with profit annuities as the mortality risk is borne by policyholders.

12 Sensitivity test *continued*

United States	31 December 2006 Embedded value	Value of in-force business	£m VNB
Central assumptions	1,144	690	45
Effect of:			
Central discount rate increasing by 1 per cent	1,089	635	33
Required capital equal to the minimum statutory requirement	1,188	735	54
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	1,085	631	32
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	1,210	757	60
Contraction of corporate bond spreads of 10 basis points	1,125	671	-
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	1,147	693	-
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	1,141	688	-
Voluntary discontinuance rates decreasing by 10 per cent	1,208	754	56
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	1,156	703	48
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	1,162	708	46
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges	1,132	679	45
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	-	-	42

* Portfolios are assumed to be rebalanced after the increase or decrease in equity and property market values at 31 December 2006.

12 Sensitivity test *continued*

Europe	31 December 2006 Embedded value	Value of in-force business	£m VNB
Central assumptions	2,681	2,279	137
Effect of:			
Central discount rate increasing by 1 per cent	2,515	2,113	111
Required capital equal to the minimum statutory requirement	2,695	2,294	140
Increasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	2,612	2,214	123
Decreasing all pre-tax investment and economic assumptions by 1 per cent with bonus rates and discount rates changing commensurately	2,758	2,353	153
Equity and property market value increasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	2,720	2,318	-
Equity and property market value decreasing by 10 per cent, with all pre-tax investment and economic assumptions unchanged*	2,641	2,240	-
Exchange rates – impact of a 10 per cent depreciation of the Euro against Pounds Sterling	2,630	2,238	-
Exchange rates – impact of a 10 per cent depreciation of the Swedish Krona against Pounds Sterling	2,597	2,199	-
Voluntary discontinuance rates decreasing by 10 per cent	2,771	2,369	160
Maintenance expense levels decreasing by 10 per cent with no corresponding increase in policy charges	2,728	2,326	145
Mortality and morbidity assumptions for assurances decreasing by 5 per cent with no corresponding increase in policy charges	2,702	2,300	139
Mortality assumption for annuities decreasing by 5 per cent with no corresponding increase in policy charges	2,680	2,278	138
For value of new business, acquisition expenses other than commission and commission related expenses increasing by 10 per cent, with no corresponding increase in policy charges	-	-	124

* Portfolios are assumed to be rebalanced after the increase or decrease in equity and property market values at 31 December 2006.

Notes:

1. The embedded value and value of the in-force business is net of minority interests.

2. VNB is gross of minority interests for the year ended 31 December 2006.