OLD MUTUAL

PRELIMINARY RESULTS 2010

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8 MARCH 2011

Old Mutual 2010 Preliminary Results Transcription
8th March 2011

Title Slide 1: 2010 Preliminary results

Slide 2: Disclaimer

Slide 3: Agenda

JULIAN ROBERTS: Good morning everybody and welcome to our 2010 preliminary results. As usual, on the stage with me is Philip Broadley, our Group Finance Director and here in the front row we've a number of our Executive Management. Andrew Birrell, right at the end, go on Andrew, stand up, take a bow, come on and we've got Paul Hanratty here as well. I've got a number of ExCo members, hiding at the back of the room worried in case I'll get them to answer a question. In addition, we've got Peter Mann from the UK business, come on Peter. And then I'm absolutely delighted that we've got Peter Bain, who you may have known the others, you won't know Peter. Peter is our new Chief Executive of the Asset Management business in the US, who's here in London with us today. If you haven't met him already, then please take the opportunity to meet him before you leave, later on this morning. In Johannesburg, Kuseni Dlamini, Head of our Emerging Markets business, is our host today. Kuseni is also joined by Peter Todd, our new Managing Director of Mutual and Federal. Kuseni, welcome, can you hear us okay?

KUSENI DLAMINI: Thank you very much Julian, we can indeed hear you clearly.

JULIAN ROBERTS: Excellent. As usual, there are a number of people on the phones and I believe on the internet as well, so we may hear from them a little bit later.

Slide 4: 2010 Overview

First, let me start with an overview of the year. You'll see that both Philip and I will compare the movement in results from prior year at constant currency. As you'll have seen from the results, we've delivered an excellent performance. IFRS adjusted operating profit was up 14%. Our earnings per share up 20% to 16 pence and our return on equity increased by over three percentage points and is now 12.2%. Given these results, we're pleased to announce a proposed final dividend of 2.9 pence, making a total dividend of 4 pence for the year. We will maintain a progressive dividend policy going forward.

In addition to strong financial results, we're committed to delivering the strategy that we set out this time last year and I am pleased with the progress that we have made.

Slide 5: Strong Sales

Philip will talk about our profit growth, but I'm equally pleased about the growth in sales. We focus on achieving both and we're confident we'll continue to successfully do so. Across Long-Term Savings, sales on an APE basis were up 7% at £1.4 billion and unit trust sales are up 28%, to £8.8 billion, resulting in net client cash flows doubling to £5 billion.

Within Emerging Markets, South African APE sales were up 7% and unit trust sales up 17%. We saw good growth in retail affluent and the mass foundation cluster, with a particular focus on savings products. In new markets, we saw sales growth of 36% in Mexico, driven by the introduction of a new regular premium savings product. Unit trust sales growth was up 9% in both Mexico and Columbia. China, which has been revitalised under our new JV partner and management, saw APE sales increase 77%, due to a broadening of our distribution channels.

Nordic sales were down on prior year by 21%, following the closure of an unprofitable product line, which we talked about before. But unit trust sales were up 37%, as the rising global equity markets triggered retail activity. Retail Europe is beginning to show encouraging signs of improvement after the restructuring, where sales were robust, delivering a 7% increase. In Wealth Management, we saw a 19% increase in sales to £734 million. The UK platform sales were up 72% and continental Europe up 50%. We also saw strong UK performance in unit trusts, up 56% to £3.3 billion, showing the continued conversion of IFAs to platform sales.

So you can see right the way across LTS, not only are we delivering good profit growth, we are also delivering a significant growth in sales, feeding through in to that doubling of net client cash flows. At this point, let me hand over to Philip, to expand on the financial highlights.

Title Slide: Business & Financial Review

PHILIP BROADLEY: Thank you Julian and good morning everyone. I hope you've had at least some time to read our release this morning; as always, it contains more than I can hope to cover here today.

Slide 7: Agenda

In my presentation this morning, I'll pick out some of the key points on group profit and our other key metrics. I'll present some new slides, showing how our embedded value is turned into cash for the shareholder. I'll then talk about capital and debt, our MCEV results and briefly update you on the non-core businesses of Bermuda and US Life, before giving you a progress report on how we're getting on against our ROE and cost reduction targets that we set out a year ago. By the time I've done all that, it will be time for lunch, at least in South Africa, so there won't be time to go through each of our business units in turn, but their performances are well covered in their business review section of the release.

Slide 8: Financial overview core operations

Let me start then by looking back over 2010.

At the time of our Interim presentation, I characterised the first half performance as complex, given the volatile equity markets that we'd seen. In the second half of the year, we saw the FTSE100, S&P 500 and JSE all share indices, each rising by 20% or more. And as a result, the very strong second half, more than made up for first half weakness, as equity markets ended the year higher than they started.

Reported in sterling, our results benefited from the strengthened dollar, krona and particularly rand and so we separated out the currency effects of our results by reporting them in constant currency today and

we'll continue to do that in the future. What these equity market trends have meant for our core operations, is that we produced a strong result in the second half. All the numbers quoted here, exclude Bermuda and US Life, as both these businesses are classified as non-core operation and under IFRS 5 US Life is also required to be treated as discontinued, so this change has been reflected by adjusting the 2009 comparatives for AOP, NCCF and funds under management.

At a group core operating level, we generated just shy of £1.5 billion of pre-tax adjusted operating profit for the year, up 14% on 2009. AOP improved in all of our businesses, attributable to strong growth in new business sales, improved persistency and increased fees from higher market levels. In Nedbank, there was higher non-interest income, with lower credit losses and we also saw higher profits in our general insurance business, and across the Group there was a clear focus on expense management. As a result of this, our ROE improved 310 basis points to end the year at 12.2% and accordingly earnings per share were up 2.7p on a constant currency basis, to 16p.

We've seen no substantial changes from the trends we reported in the first nine months of the year and we've clearly benefited from the strong market conditions and the diversity of earning sources, particularly in our Emerging Markets businesses. Overall, there were net client cash outflows of £5.7 billion in our core operations. Taken together, our LTS businesses produced inflows of £5 billion in the year, double the 2009 level and the overall positive contribution from Emerging Markets is worth noting.

We're pleased with the considerable improvements we're seeing in OMSA bearing in mind the level of contractual annuity payments in the corporate business. The outflows in OMSA were more than offset by inflows from the Rest of Africa and the New Markets. Wealth Management had net client cash inflows of £3.9 billion, with the UK particularly strong at £2.3 billion, reflecting the continued growth of the platform business. Against this however, US Asset Management sustained outflows of £11.7 billion in the year, mainly from equity, alternative and stable value products, partially offset by inflows into fixed income. Improved market conditions contributed to the 6% constant currency increase in funds under management, ending the year at £309.3 billion.

So now let's look at the operating profit in a bit more detail...

Slide 9: Operating profit analysis: IFRS AOP

...and our operating profit is shown on this waterfall. Operational improvements have been achieved across the board, both in emerging market and non-emerging market facing businesses. Our Long-Term Savings businesses produced some 60% of the Group's pre-tax AOP for the year. The earnings momentum we saw in the first half was sustained into the second half of 2010. The combined effects of strong sales, rising markets and expense management, in addition to improved persistency, resulted in increased profits being delivered in all parts of LTS, on a local currency basis.

Nedbank's results were reported last week and they generated headline earnings growth for the first time since 2007. This was attributable to a strong second half performance, with improved economic conditions and a continued focus on growing non-interest revenue. Nedbank retail has started to recover, as impairments reduced and all the businesses contained expenses through continued cost discipline.

M&F, our P&C business, had a strong underwriting surplus for the year, while in US Asset Management, despite the outflows, profits were flat.

Looking at other costs; the finance charge increased from 2009, as we include in 2010, a full year of the interest charge on the £500 million, seven year bond that we placed in October 2009. On the lower contribution from LTIR, you may recall that we previously reported that we reduced the rate applied to the long-term investment return, most significantly in OMSA and M&F, where we lowered the rate from 13.3 to 9.4%. We think this is prudent as it reflects the current expected returns on the shareholder mix of assets and as you can see, the change in rate has the effect of a lower LTIR contribution in 2010 and you should expect the same trend in 2011 and the rate for this year will be 8.4%, reflecting the lower interest rate environment in South Africa at present.

The increase in the interest payment to Bermuda is as a result of us changing the inter-group financing arrangements between PLC and OM Bermuda, to reflect current lower interest rates. And going forward, you'll see the interest payable within AOP being lower.

Other expenses are mainly corporate costs and the improvement here was due to a stamp duty reserve tax refund received in the first half of the year and some higher dividend income. Overall, central costs were tightly management and we expect to see these reduce going forwards in line with our 2012 target.

Slide 10: IFRS Simplified operating result

Here now is a simplified summary of the Group Core Operating Results, showing AOP net of minority interests. 2010 has been a year of operational delivery for each of the four lines of business. LTS profits growing 26%. The Group tax charge at £347 million, gives an effective rate of tax on AOP of 23%, compared to 25% last time.

Slide 11: Sources of earnings

Most of our earnings are generated in fee income, earned from managing or administering funds, as you can see here and then from underwriting revenue. The increase in fees was aligned to market growth and the strong sales growth in Wealth Management. Mass Foundation and Retail Affluent cluster product sales and investment return, generated much of the improvement in underwriting revenue. The column headed banking NII is net of impairments and the column headed Nedbank NIR, is essentially bank trading, fee and commission income, where the improvement in 2010, reflects a growth in service charges, transactional fees and trading activity from the growing customer base.

Our long-term investment returns are the earnings on shareholder capital and are generated on low risk cash and government bonds, except for the 25% of shareholder funds in South Africa, which are in local equities.

And then looking at the expense items, which are the two columns on the right hand side, underlying administration expenses increased across most business units and that's not surprising, given that South

Africa wage inflation was 8.5% in the year. But expenses grew more slowly than income and the increase in acquisition expenses reflects the increase in commission, linked to sales volume.

Slide 12: Drivers of profitability

Now if we drill down into this a bit more, 35% of our revenue comes from fees earned from managing and administering assets. In 2010, we earned an additional 4.3 basis points on the average funds under management in the period. The higher weighting of LTS funds under management is a positive for the total margin and as I said earlier, funds under management increased to £309 billion, so the effect of these two trends is to make its contribution towards the overall increase in AOP profit.

The broad and diversified asset gathering power of the Group continued and you can see how the earnings split develops, in terms of the margins across the three asset gathering businesses and I point out particularly that within LTS, in constant currency terms, funds under management has increased 16% over one year and 26% over two years.

Slide 13: MCEV to Cash

I'm now going to take you on a four stage journey to show you how our embedded value is turned ultimately into cash for shareholders. Much of the information that I summarise here has been in our MCEV disclosures before and there are three terms that I'll use: cash, capital and free surplus. When commenting on our industry, some seem to use these terms inter-changeably, but I don't think they do mean the same thing and by the end of the description, I hope you will clearly see that the cash that is available to shareholders and bondholders and my definition of cash means cash in the holding company bank account.

The first stage in this journey is looking at VIF, the second stage is looking at the free surplus generated by the operating businesses, taking into account expected return on existing free surplus, investment in new business, adjustment for experience variances, capital required and so on. That excess builds in stage three to free surplus, remitted finally to the Group as cash and deployed there. So those are the four stages and here's the first.

Slide 14: 1. VIF conversion to free surplus

Looking at this chart, which is our value of in force business, presented here as a single table, to give a guide as to how VIF might emerge over time. As you know, VIF represents the present value of the future profits that are expected to arise from the insurance policies, currently in force. It takes no account of new business, and the aim of the slide is to show you how the opening VIF in each year is expected to be released or converted during the year and because we're showing VIF as the opening rate rather than the average, exchange rates do have some effect on this calculation. The numbers in the VIF conversion column are the amounts we classify as transfers from VIF to free surplus, reflects the profit emerging from the in force cover business, so in other words, it's the amount we expect to be converted into free surplus, during the course of the year. The calculation of opening VIF, divided by the expected VIF conversion, gives an indication as to the current duration of each book of business. For example, the duration of

Emerging Markets is approximately six years and the percentages give an approximation of how much of the back book is expected to convert to free surplus each year. Note that this ignores the effects of discounting within the VIF, but based on the 2009 and 2010 calculations, looking at LTS overall, you see a stable free surplus generation for the covered business, with approximately £3 billion of free surplus to be expected over the next five years and that comes from taking the average of 2009/10 - about six hundred - multiplying by five years.

Looking at each line of business, we can see the free surplus generation from the largest covered book of business, Wealth Management, is seven years. Surplus generation from the in-force business, covers investment in new business and ultimately provides cash to pay dividends upwards. Going forward, management actions to continue to improve persistency and control expenses, are expected to have a positive impact on in-force surplus generation.

We have given you our 2010 closing VIF in the MCEV statements, so if you want to use the same basis for calculation and take in to account that the VIF conversion calculation is broadly constant in 2009 and 2010, you can see that we would expect on this basis, the rate of release to be much the same in 2011.

Slide 15: 2. Sources and uses of free surplus

So now on to the second stage, the summary of the sources and uses of free surplus and this is where you see the effect of the cost savings targets coming through now and into the future. Essentially, free surplus is generated by each of the operating businesses. The £618 million, with which I ended the previous slide, links to the £547 million, you see at the top of the 2010 column, that's the actual free surplus, generated by life assurance and savings. The difference being the impact of experience variances, assumption changes and other operating variances, plus the expected return on free surplus assets. In 2010 this included the impact of the expenses incurred, to achieve the cost savings target and the write-off of some deferred tax assets in Nordic. In 2009, the equivalent amount of £760 million was boosted by £92 million of VIF's financing in Skandia International. But what you can also see on this chart is that our core operations have consistently generated a gross free surplus of over a billion pounds in each of 2009 and 2010. There were improvements across property and casualty, banking and the asset management lines of business. Then underneath, you see £419 million of investment in new business and a net £18 million of transfer to required capital. Other movements resulted in a surplus of £66 million. So adding all that up, the total free surplus generation of the core continuing operations, was £645 million, in 2010. If you then look at the total group free surplus generation and add in US Life and Bermuda, the discontinued businesses, that's £759 million in 2010, which then links to my next slide and...

Slide 16: 3. Group free surplus generation 2010

...the third stage in the journey. This breaks down the free surplus generation into more detail and this is an enhanced version of the waterfall that I showed you for the first time a year ago. And just again, to remind you, this is for the whole Group, including Bermuda and US Life. So £759 million of free surplus generation over the year and the chart splits out the key components of it. Of the total, £590 million is from covered business, which was achieved even after £485 million of investment in new business and £240 million, comes from non-covered business. So as I hope you'll clearly see, we're continuing to

generate a substantial surplus in operations while investing in business growth. Add on the foreign exchange gains that we benefited from in the year and retaining a portion of the total free surplus generation within the business for working capital and other requirements, there's a net result of £433 million, sent to the Group from our operating businesses and in the fourth and final stage of the journey, we take this £433 million and show how it's used in the holding company...

Slide 17: 4. Available shareholder cash

...and this includes such things as interest payments, the 2009 [final] and 2010 interim dividend payments in cash, as well as the repayment of gross debt. So over these four stages, I hope I've shown you the linkage between MCEV, through surplus generation, new business investment and ending with cash at the holding company in hand. This provides the mechanism of reducing debt, combined with reducing central costs and will ultimately lead to an increase in cash available for distribution to shareholders.

Slide 18: LTS new business return on "risk-free" return on free surplus invested

So if we now look at our efforts to reinvest the free surplus more efficiently. And the key management decision looking forward is balancing the needs of our customers with identifying products that will generate future value for shareholders. This chart shows the amount of money earned at the risk free rate over and above every pound of free surplus invested, i.e. the new business strain and required capital for each of our LTS businesses. So here we take the new business value, which I stress is on an MCEV basis divided by free surplus strain from writing that business. So in Emerging Markets we expect a minimum of a risk free return of 54p in excess of our investment.

The slide on VIF conversion that I showed you earlier, gives an indication as to the length of time over which profits are expected to be realised and of course new business may have a different profile to the current in-force book. But just to point out that whilst this calculation is based on risk free return, we would in future expect to earn additional margins, which will improve the overall return from our investment and furthermore, I'm not taking into account here non covered business. But the improved efficiency that we've seen over the year, reflects the underlying expense reductions and our moves to write more capital effective and higher risk adjusted return products, largely lower up-front, commission-based products.

Emerging Markets improved due to a more profitable mix and the Nordic improvements come from management actions on the business mix too. In Retail Europe, we see the positive effect of expense management and in Wealth Management, improvements were related to a significant decrease in new business strain, with acquisition costs and up-front commissions considerably less than in the past. This has been partially offset by a decrease in the future profitability of the in-force book, since the platform business is lower margin than the other business, which is maturing.

So now, let's move on to capital, gearing and dividends.

Slide 19: Capital and debt structure

As at the 31st December, 2010, our pro forma FGD surplus, on a statutory basis was £2.1 billion. That's a surplus over required capital of 46% and note that the call of the £300 million lower tier 2 bond that we

made in January of this year, is already included in the year end figure as a deduction. The capital requirement for 2010 was coincidentally, £300 million higher than 2009, reflecting mainly Emerging Markets. Capital resources at £6.7 billion, much improved, mainly through the statutory profits arising in LTS and Nedbank, although that's partially offset by the deduction of intangible assets in Nedbank, which occurred during the last quarter, together with a payment of Group ordinary and preferred dividends. We've already guided you to the fact that there will be a reduction to FGD of about £100 million, following the sale of US Life.

Each of our businesses continues to have strong local statutory capital cover as well as the liquidity needed to support normal trading operations. At the end of December 2010, the holding company had available to it, cash and committed facilities of £1.4 billion. Gross debt on an IFRS basis was £2.9 billion. The cash applied at the holding company, to repaying debt, was just short of a million pounds during the year but our reported debt increased because of weakening sterling and because of the mark-to-market adjustment of our own debt.

As always, the Board considers the dividend position, taking in to account our capital, liquidity and earnings, as well as the current and expected market and economic conditions. On this basis, as well as the confidence it has on our prospects, the Board has declared a final dividend for 2010 of 2.9p per ordinary share, which in addition to the interim dividend of 1.1p, gives you a total for the year of 4p, comparing to a total dividend of 1.5p for 2009. And once again we're offering a scrip dividend alternative to eligible shareholders. The dividend for the year is comfortably in line with our policy of targeting dividend cover over time of at least two and a half times and you may also note that the dividend policy, published today, contains an important additional word, which is that the Board now expects to apply a progressive dividend policy.

Slide 20: MCEV

Moving on to MCEV and some key metrics for the year. In 2010, our adjusted Group, MCEV per share was 202.2 pence, up 18% for 2009 and this figure is derived after including US Life at the 31st December, at a negative value, equivalent to 3.5 pence per share. Adjusted Group MCEV operating earnings were strong at 15.5 pence per share. We saw good growth in earnings, from both covered business, up from 9.4 to 11p and in non-covered business, from 3.2 to 4.5p, which I think shows a growing component of non-covered business in the total mix and following the strengthening of assumptions in 2009, I'm pleased to report that we had favourable variances overall. VNB was £200 million for the year, up 31% over 2009, driven by improved sales volumes in both Emerging Markets and Wealth Management, and Retail Europe, also contributed £7 million of new business, compared to a negative contribution in 2009. APE margins improved, given the favourable product mix and the improvements in Nordic and Retail Europe.

Slide 21: Bermuda update

So let me now deal with the discontinued and noncore operations, Bermuda and US Life. You may remember that I spent some time describing our approach to managing the run-off and the hedging strategy in Bermuda at the Interims, back in August, so I won't go in to as much detail about that today,

as we broadly maintained the same hedging strategy since then but let me show you, as the graph does I think very well, what's happened to the unrealised profit and loss from the hedging programme during the year and you can see what's happened in this updated chart from the one I showed you in August. The line represents the accumulated daily profit or loss, which is unrealised, arising from the movement in reserves in respect of guaranteed minimum benefits, relative for the change in the value of hedge assets. And as a result of changes in economic conditions, the GMAB reserve, [which is the box in the bottom right hand side], reduced from £766 [correction: £763] million at the end of 2009 to £673 million at the 31st December. We continue to manage the business closely and in addition to our hedging activity, we're doing other things to actively reduce the guarantee liability in the Bermuda book. One of these is a surrender waiver offer, currently being made to account holders outside of Hong Kong, which has so far increased the rate and number of surrenders of the non Hong Kong UGO contracts. We've seen about 6% of the book surrender, as at the 4th March, under the terms of this offer and as at the 31st December 2010, 75% of the UGO contracts, had fund values greater than the guarantee level, so with further gains across global markets, we would expect to see continued surrenders of these contracts over the coming year.

Slide 22: US Life update

I won't go in to too much detail about US Life's trading performance; it's performed well, as disclosed in my financial review in the Release, and I think the best way of summing up its performance, is to say that in 2010, a total of $109 million was paid in cash, by way of a dividend from OMFLIC, the insurance company and OMRE, its related reinsurer, to PLC. After the dividend, the US Life RBC at the 31st December 2010 was 350%. There have been no significant changes to the estimated RBC ratio since the end of the year. In February of this year, we agreed to enter into an amended SPA with Harbinger Group Inc, now the purchasing entity. You may have seen that Harbinger Group Inc. put out a press release last night, concerning the transaction and we await regulatory approval for the transaction, which is the only condition before closing and closing is still expected this quarter. We have accounted for a write-down of the US Life business, in our IFRS statement, to what we believe is its realisable value; we anticipated that in our Interim Statements last year. The amount recognised, as the impairment comes from remeasuring the business to fair value less the costs of sale, £827 million. This leads to a loss of £713 million in 2010, after taking account of the trading profit. The MCEV of the business is a negative £189 million and we will recognise an uplift in MCEV, once the transaction completes.

Slide 23: Current risk profile

And here is just a reminder of the reasons for our decision to sell US Life. This looks at our risk appetite across the Group, left hand side of the chart, as we are today, right hand side of the chart on closing. US Life is outside of our risk appetite. It does not meet the business unit return on equity hurdle rate that we've mentioned before and therefore it does not add value to the Group as a whole. With US Life sold, the credit risk of our insurance business, reduces from 15% of the total to 4%.

Slide 24: Progress against 2012 ROE and margin targets

We set out operational targets a year ago and we'll show you now our updated scorecard, firstly for ROE. Here I've included the Group ROE number, although we haven't set a specific target for it. The Group ROE improvement was helped by the strong average rand rate, the increase in asset based fees and lower spend on LTS projects.

The return on equity in each business unit is generally moving in the right direction and the rounding within the Nordic result makes the difference seem larger than it actually is but it's important to remind you that in both 2009 and 2010, Nordic and Wealth Management had positive non-recurring items of pre-tax profit, which in 2010 were £11 million and £71 million and this has clearly made a difference to their respective ROEs, which otherwise would have been 9.9% and 9.2% respectively. As these won't recur, we still have some work to do, to move each business and consistently operate it into the target range whilst still maintaining growth. In particular, Nordic and Wealth Management will incur further restructuring costs in 2011.

Slide 25: Progress against 2012 cost reduction targets

We've made good progress on the cost targets as well. Here we've included the costs that we incurred in 2010 in order to achieve the targets. We flagged these at the Interims as being in the order of £50 million. As you can see, we've still got quite a lot to do, particularly in Nordic and that will continue this year but also at Group, where the benefits we expect to come later, as we complete the implementation of Solvency II.

In Retail Europe, our work on transferring IT and client administration functions to South Africa continues but so far it's achieved 40% of the 2012 target on a run-rate basis. The restructuring and expense management programme in Wealth Management has resulted in £35 million of annual operating costs already being taken out against the target of £45 million. So for the whole Group, we continue to maintain our focus on achieving these targets within the next two years and we will have to maintain that focus in order to achieve them.

Slide 26: Financial summary

So finally to summarise. We've made strong progress in operational and strategic terms that we've delivered to the benefit of shareholders. Pre-tax AOP, in the year-on-year operating profit improvement across all of our businesses was pleasing, leading to earnings per share of 16p. We'll pay a final dividend of 2.9p per share, giving us a total over the year of 4 pence per share. We continue to focus on the delivery of our stated targets in 2011 and as a management team, we're highly committed to deliver on the stated targets.

And with that, I'll hand over to Julian to talk about our strategy.

Slide 27: Title slide: Strategy & summary

Slide 28: Delivering our strategy in 2010

JULIAN ROBERTS: Thank you Philip. We are now one year into the three year strategy to revitalise the Group. Last year I laid out a number of operational targets to be delivered by the end of 2012 and as you'll have heard from Philip, we've made a strong start. We also introduced the new Group operating model, giving our businesses local autonomy, but operating within Group structures and disciplines, especially on risk and product underwriting standards. This new approach to governance and control has bedded in well. The level of one-off operational losses across the Group, reduced significantly this year and as you saw from Philip's slide on the US Life and Bermuda, we continue to manage our risk effectively.

We have continued to strengthen our management capability. As I've mentioned earlier, we've appointed the two Peters at US Asset Management and Mutual & Federal. We've also appointed new Heads of product and IT in our Long-Term Savings division and promoted Mårton Andersson to CEO of Nordic and Diane Radley to CEO of OMIGSA. These are key roles to develop our businesses and I'm delighted with the contribution these individuals are already making.

I know you're all interested to hear about our plans to simplify the Group, so now let me talk about that in a bit more detail.

Slide 29: Simplifying our Structure

Last year we said we would streamline and simplify the Group, where appropriate and where we'd be able to create value for shareholders. In the global market, simplifying the Group at value is challenging and you'll have seen that there is very little M&A activity across financial services. Against this backdrop, as Philip has said, I was delighted that we signed a contract to sell US Life to Harbinger for $350 million dollars in August. This deal has taken longer to complete than we expected but if you've seen in the announcement last night, Harbinger has changed the purchasing entity to their top company, a publicly listed company on the NYSE and we believe that that is positive news. In their announcement they have said that they anticipate being able to close around the end of this quarter.

Let me move on to Nedbank. Nedbank has performed particularly well in 2010 with profitability up, impairments down and management delivering on our agreed strategy. You'll have seen from the results that performance improved in the second half with the level of retail impairments reducing. The bank is in good health. We have set out clearly Old Mutual's strategy before; this has not changed, so in this environment, we will continue to operate and support Nedbank in continuing to deliver improved performance and shareholder value. I'm pleased with the underwriting performance of Mutual and Federal, now that it is wholly owned by the Group. The management is focused on delivering the step change programme to revitalise this business. With regard to US Asset Management IPO, it is still our intention to explore the partial listing of the business by the end of 2012. The cash flows in the US in 2010

were disappointing as net inflows into fixed income products were offset by outflows in some equity and stable value products.

Our new CEO in the US, Peter Bain and he only joined a week ago, is already focused on a number of priorities: growing international distribution, maintaining investment discipline, so as to improve investment performance, growth and margins. The timing of any IPO will be dependent on making progress on these and there is still a lot to do.

Slide 30: Building a solid foundation for growth...

I now want to spend some time on Long-Term Savings, focusing on the Emerging Markets and Wealth Management, highlighting while we're bullish about their prospects and then explaining how we are implementing our strategy across the whole division.

Let me start with Emerging Markets. In South Africa, we are well positioned in the growth sweet spots, for example the mass foundation market. We've good product sets, robust distribution arrangements and clear strategies to build the relationships with a new generation of customers, who are rapidly increasing their wealth. In South Africa, we have at the core a highly generative business, with strong operational capability and we are looking to use the product distribution and administrative expertise to grow not just in South Africa, but to grow in other markets. For instance in the Rest of Africa, we have well-established businesses but we need to carry on increasing in scale. We see opportunities to grow in Africa but any expansion must be within appropriate risk adjusted returns. The opportunity is worth pursuing. Africa's GDP is forecast to rise from $1.6 trillion in 2008 to $2.6 [trillion] by 2020, with consumer spending rising from $860 billion dollars to $1.4 trillion. We intend for the rest of Africa business, to represent at least 10% of the size of South Africa in profit terms by 2012 and 15% by 2015.

We see good growth opportunities in our two Latin American markets, Mexico and Columbia. Both have sizeable populations and as you can see from the statistics on the slide are forecast to grow their GDP solidly over the next five years. In only a few years these economies will be much more significant to the global economy than now. Longer term prospects exist in India and China; so we believe we are well-positioned to target growth, in all of our Emerging Market businesses.

Let me however move northwards to Wealth Management. We believe we've got the right business model for the future, as demonstrated by the significant growth in net client cash flows, rising 56% to £3.9 billion. I'm pleased that as a result of our cost reduction programme, Wealth Management business has increased its operating margin from 38 basis points, up from 25 bps last year.

We continue to invest in the UK in our platform business and are comfortable with the position for the implementation of the retail distribution review. In the third quarter of 2010, our UK business achieved a 7.4% market share of all industry channels, up from 6.4% at the end of 2009. This strong performance reflects the broad trend of IFAs converting their business model to one which uses platforms. I believe strongly that there will be winners and losers in this market. The winners will be platforms with efficient cost bases, good functionality and product innovation, resulting in higher market share. And as you can

see, we are well positioned. We are taking £45 million out of Wealth Management to reduce our costs to 40 basis points, in order to generate our required ROE of 12 to 15%. We continue to invest in the platform and have reliable, functional and scaleable technology. The platform is generating positive VNB.

Our performance in 2010, shows that while we are progressing well, there is still a lot to do to deliver the profitability we require. With western governments likely to have to roll back state retirement provision and with the corresponding need for personal retirement savings, the geographies where Wealth Management operates are important markets for us and with a strong bias towards equity geared products, you can see from our results that as equity markets perform, these businesses perform very well. I therefore believe we have the right model in our Wealth Management business.

Slide 31: ...by leveraging our capabilities across LTS

So we've taken Emerging Markets, and taken Wealth Management, we strongly believe however that there are benefits in LTS working together across the geographies. We've made good progress in driving our businesses to work more closely together and to leverage the strength of our South African expertise. In 2011 we aim to roll out an enhanced suite of products, utilising our experience in developing products for the mass markets in South Africa into other emerging markets and look to more generally transfer products developed in one market, taking them to other markets.

We've had some success in the last year with OMSA redesigning a unit-linked saving product for Mexico, which has underpinned the sales growth in Mexico and Skandia Fonder launching a risk targeted fund range called Skala, based on SIG's successful spectrum range.

In administration, we're looking to increase efficiencies by leveraging economies of scale in our South African administration. We've moved the IT and Customer Service operations for Retail Europe to our Cape Town offices and expect some administration to follow later this year.

Whilst we're skilled in rolling out traditional distribution channels in emerging markets, we now need to grow our alternative distribution channels too. We've taken the first step in creating iWYZE, a short term insurance product for the retail mass market, which is distributed via digital channels as well as traditional channels, creating to date around 150 new jobs in South Africa, largely for young people. So the new Heads of products and IT in LTS are critical to the growth of the business. We've appointed executives with good international experience. Critically, we're incentivising our people to work to work across silos and boundaries to share experiences and solve operational challenges. Now we're in the early stages of getting the real benefit but Paul and I believe that this can generate real value for shareholders by the businesses working much closer together and using the skills that we've got.

Slide 32: Key deliverables for 2011 & 2012

So what are our key priorities in the next two years? As I mentioned earlier, I am confident that the sale of US Life to Harbinger will close soon. We will continue to simplify and streamline the company where we can create value for shareholders and we'll maintain our strict criteria for keeping businesses with the

Group. I've spoken about the importance of our South African business in driving growth in Emerging Markets and particularly in Mexico, Columbia and the Rest of Africa. We have plans to broaden distribution, enhance our product proposition across the businesses, with a continued shift towards improving risk adjusted returns on capital. We continue to explore the possibility of a partial IPO of the US asset management business and remain committed to our strategic targets.

Slide 33: Summary

So in summary, we've delivered a good set of results for 2010. We have a balanced portfolio of businesses providing improving returns and growth and as Philip showed, generating good cash returns and a long term build up of embedded value. We are committed, on track, to meet all of our operational targets. We will progressively increase our dividend. I am delighted with these results and progress towards our strategic objectives.

Slide 34: Q&A

Ladies and gentlemen, that concludes the presentation this morning and I'm now happy to open the floor to questions, first of all in London, then we will go to South Africa and then we'll see if there are any people on the telephones. I suppose as normal, I have to go to the first person who put up his hand, Mr Paterson, good morning.

GREIG PATERSON: Greig Patterson, KBW, there's two or three questions. The first one is US cash outflows. I wonder if you just talk about some of the drivers there and give us some colour and some plans you think you could implement to stop the haemorrhaging of net client cash flows there. The second one, it's a date and amounts. I wonder if you could remind us of the amount of loan notes, Group holding company loan notes owned by OMLACSA and what is the timing of the repayment requirement they are for - are they in perpetuity? And the third thing, a little bit of a puzzle – in the first half and I think for the full year as well, OMLACSA had quite a substantial outflows, yet you've got positive persistency, assumption changes and variances. I'm wondering if it's fair to say that some of those products surrendering have fairly high surrender guarantees and actually making money when they leave the book. I'm not saying that's case, I was just wondering if you could maybe – is that how we square the circle there.

JULIAN ROBERTS: Okay, I will answer the first one and get the opportunity for Peter to say something. I think I'll turn the second one to Philip and I think in South Africa, Gary Palser, if he's in the room, wants to pick up the third question.

First of all on outflows Greig, you know, you can see that clearly in many asset managers, over the last couple of years it is the quant strategies that have been struggling and many asset managers have had very significant outflows when they've been substantially quant managers. Actually we haven't done that badly. We've had some strategies that haven't been working but actually some strategies that have been working particularly well. So we do expect that as the strategies that haven't been performing have had outflows during this year, we are hoping that that is coming to the end of the pipeline because many of

the things are beginning to turn and perform quite well. Of course it's very early to predict what will happen and it does depend on market conditions. Peter, is there anything you'd like to add?

PETER BAIN: In fairness, as Julian pointed out, this is actually day ten on the job, so I will share with you my definitive and clear analysis on day ten but I would point out a couple of things. The first is, if you think through the markets and cash flow and asset management, there's always a lag relative to performance. When you're performing very well and you turn negative, your cash flow will remain positive for a period of time. The quantitative point Julian made is right. When you have a very strong macro driven market, which is what we've had in the capital markets for really the last eighteen to twenty four months, that's when you'll see quantitative managers underperform. Their processes are not designed to handle risk on risk off decisions by the markets and we've seen that in a couple of our managers. As the market is returning to more fundamentally driven decision making, we are in fact seeing the performance at the quantitative equity managers improve - that's as it should be, number one. But number two, that's reassuring to me that the processes that they had in place have credibility, have sustenance, have deliverability and have discipline and so I think that will turn.

The second observation I'll make just ten days in is, the other thing that you've seen over the last eighteen months in the markets is a substantial shift frankly out of equity and into core fixed income management and as I look at the portfolio of skill sets we've got in the Group, we don't really have that core long-term active US fixed income manager. So there's been an allocation out of equity and we didn't capture on the other side the inflows that we might have and I'll be looking at that. There are some managers that I believe already have the capability to build that business for us – I think that's an important improvement potentially.

And then the last piece is and this is actually from a management perspective, encouraging to me, it's net eleven out but that includes twenty billion in. There are strong components of performance and strong skills and that's an area for us us to begin to improve our ability to distribute those strong performing products into new markets, so I think that combination is how I'm looking at this again on day ten. But I think there's a chance for the strong flows to turn and again, there's a lag, there will be a period for it to phase in but I am looking towards this year as a strong year to focus on getting that new equilibrium established and then turning this ship on the flow side. Thank you Julian.

JULIAN ROBERTS: Philip.

PHILIP BROADLEY: It's not a number I have in my mind or to hand, but I do not think there is a significant amount of internal debt that we will be repaying to South Africa in the next couple of years.

GREIG PATERSON: [off mic]

PHILIP BROADLEY: I'm sorry I don't Greg.

GREIG PATERSON: … perpetuity in other words, if it's not on your radar screen.

PHILIP BROADLEY: It's not on my radar screen for the next couple of years.

JULIAN ROBERTS: Can I turn the OMLACSA question down to you, Kuseni?

KUSENI DLAMINI: Gary Palser here is ready to answer Julian, thank you very much.

GARY PALSER: The question around the loan notes, at the end of December there were R5.4 billion of loan notes on our balance sheet, OMLACSA's balance sheet and I'm not aware of when that actually needs to be repaid, Katie [Murray, CFO of Emerging Markets] here doesn't think it's before 2015. The question about persistency, I think there are two things to comment on. One is that the net client cash flow is not only influenced by terminations, it's also influenced by annuity payments, by death benefit payments, by maturities and so the fact that the net client cash flow is close to zero, isn't necessarily due to persistency, it's actually, a big factor is the success in selling annuity products historically and then the reason for positive persistency experience in 2010 is one that we obviously provided for, persistence experience to worsen or to be worse than it was, that we provided for previously and then in addition to that, the actual experience in 2010 was better than we expected, as a result of management action, particularly within Retail Affluent and Retail Mass.

JULIAN ROBERTS: Thank you Gary. Next question.

COLIN SIMPSON: It's Colin Simpson from Goldman's, just two questions please. One on the goodwill on the US Asset Manager, Philip, how comfortable are you with that £1.1 billion number and also on Wealth Management, I think at the showcase you said that by 2012, you would get about £63 billion of assets earning 25 to 30 basis points. You've got £56 billion already earning 38bps. Could we have more realistic targets possibly or are we going to see margin compression there.

PHILIP BROADLEY: On goodwill, the goodwill on all of our businesses is tested annually and robustly. The calculation for US Asset Management looks at the business overall, so we're looking at one unit, we're not looking at individual boutiques. We are looking at the expected growth in profitability, in looking at it in cash flow terms and I'd really just echo the comments that Peter was making earlier about what we see as the underlying strength of the business and the point about the strong inflows as well as the outflows seen in the period, so looking at goodwill as we do over the medium to long term, we're comfortable with the carrying value.

JULIAN ROBERTS: Colin, we're not going to revise the targets because that always ends up with you beating us up when we set aggressive targets and don't make it, so it's nice to achieve various targets, but Peter, I wonder, Peter Mann, the Chief Executive of the UK business, I wonder if you can just give a flavour of your confidence about market growth, for our platform?

PETER MANN: Yes, okay. A couple of points. One around market growth and maybe a couple of points on margin, how we're going to look at the margin in the UK business. Julian has talked about the IFAs in the UK becoming more confident around platforms and the use of platforms and we expect that to continue, indeed grow as we run up to the implementation of the retail distribution review. We're seeing many key partners in the UK now go through a robust analysis process to choose their platform of choice and we're clearly leading that group and we're winning more than we're losing in that respect, in fact

we're very well placed. So we expect, although we took £5.3 billion of new assets in last year, on the platform, we expect that to grow this year and we expect to take even more assets in, this year on the platform. Taking assets in is one part of the equation, there's another key part of the equation I should point out, which is to increase basis points margin on the platform. There are a number of initiatives. First of all you'll have seen us very recently announce an increase to our single investor charge, which is the platform charge that we apply at client level. That in itself will increase the basis point margin. Secondly, we have launched two products into the Skandia Investment Group, on our platform already and we're looking to launch more products. Clearly our own funds, when used by IFAs or funds manufactured by our own business, produce higher revenues. We've also committed to the marketplace that we will review and launch an RDR compliant platform, well in advance of the requirement to do so in 2012 and we'll obviously be looking at the basis point margin for that. So we're confident of continuing flows, increased flows and continuing margin improvements.

JULIAN ROBERTS: Thank you Peter.

JON HOCKING: Jon Hocking, Morgan Stanley. I've got two questions on the platform please and one question on central liquidity. Starting with the liquidity question, obviously assuming US Life completes, I think you've indicated in the past you could run with lower central liquidity. I wonder if you could give us an idea of the sort of minimum level of liquidity you'd be happy with at the Hold Co and then secondly, on the platform, previously you've talked about 50 bps of margin, 50 bps of revenue, 40 bps of expenses. You're clearly not at the 40 bps yet. Can you talk a little bit about where you are on a run rate? Presumably you're still above your revenues, given you're not expecting to make a profit till 2012 and the comment about extra basis points on the platform, are we going to see a blended fees to funds above 50 bps on the platform? Thank you.

PHILIP BROADLEY: The comments I've made in the past about liquidity have always been linking it to FGD, to attempt to keep things simple and to say that we were targeting a minimum level of FGD surplus of £1 billion and to have cash or access to funds of the same amount under control here so that if any business unit needed a capital injection, we unequivocally had the funds available and I've also then commented that as I look across the Group, at the one business unit or legal entity that was most likely to need a sudden injection of capital would be US Life in the event that there was a substantial reduction in its capital position as result of a default or impairment. If US Life goes at the end of the quarter, then that requirement is a little bit different. Our FGD sensitivities or otherwise, equity based in South Africa or currency based. So I think the answer is we don't need necessarily to have the same level of FGD surplus or the same level of liquidity but having got used to that £1 billion buffer, both in FGD capital and liquidity terms, I'm not sure I'll necessarily move to change it. And indeed that £2.1 billion, as it is now, it's slightly academic in the sense of managing to it.

JULIAN ROBERTS: And your question on the platform, well the answer is clearly, we are significantly above the 40 bps, that's why we've got to take out the expenses that we've got the target for 2012 and by taking out those expenses, we then get down to our 40 bps target. As Peter said, in order to increase the profitability, we're trying to add various things on to the platform and yes, all of those things will produce us additional margin. So as well as getting the assets onto the platform, we're trying to stretch the value

chain to get additional margin and we're also trying to make sure that we run it leaner and meaner by reducing our costs. Yes.

OLIVER STEEL: Oliver Steel, Deutsche Bank. Two questions. The first is on the sub Saharan Africa target, I think you said 10% of South African profits by 2012 and 15% by 2015. Is that the long term savings profit and can you talk about where you are in non South Africa, Africa, in terms of funds under management? What proportion of profits it actually generates at the moment, so that we can see where the trend is? The second question is on free surplus developing into dividend up at the holding company. The free surplus in operations went from £1.1 billion to £1.6 [billion]. Okay, a couple of hundred million of that was currency but what drives the dividend up to the holding company, given that you've increased the free surplus quite substantially last year?

JULIAN ROBERTS: Paul, you've been very quiet in the front. Do you want to talk about sub-Saharan Africa and the proportion of profits and how we get there?

PAUL HANRATTY: Certainly Julian. I think if you go back some years Oliver, you know when Zimbabwe was still a valuable operation to us, at that point, Zimbabwe alone represented 10% of the earnings of the South African business. Now clearly today it's worth very little. But if you add all the businesses together, we are getting pretty close to the 10% and if we look at the growth rates, the businesses in Africa tend to be higher margin business than the South African business, competition is obviously a little bit less strong in most of those markets, so we believe the profit growth there can be pretty high. I think you've just got to remember Julian's point. These businesses tend to be riskier and therefore we actually need to earn higher returns to justify being in those markets and I think the 15%, I believe is a realistic target for us to aim for 2015.

JULIAN ROBERTS: Thank you Paul. I'm going to stop London for a minute and move to Kuseni. Kuseni are there questions here in Johannesburg?

KUSENI DLAMINI: Thanks Julian, do we have any questions here? Question over there, one question so far.

DAVID DANILOWITZ: Hi Julian, Dave Danilowitz from Nedbank Securities. Three questions. First of all, thanks very much for the shareholder cash flow movements or the VIF conversion movements. Maybe just a question and a comment. Certainly, you've given to us on an operating level but on a regional basis, clearly South Africa would be the biggest driver of those cash flows. Is there any initiative that you can look to, to try and protect the fact that if the currency moves your ability to pay down debt is diminished, so question one is, you know, any hedging opportunities one can look at either in terms of the businesses or rather importantly, in terms of your future cash payments you expect to make out of South Africa. That's the first question. Second, I haven't seen too much of recent, but the FSA spoke about, when they launched their Financial Conduct Authority and really my understanding at the time was looking at product pricing and structures. Are there any risks you see within this going forward, in terms of your businesses or do you see those in other areas of the market and then third of all, you spoke about India and China, obviously those operations had been slowed off, not from a growth perspective but from

your investment perspective. Do you have any aspirations to expand further investment in to those areas? Thanks.

PHILIP BROADLEY: In terms of hedging South African cash flows, the cash flow that is remitted from South Africa to plc is used to pay dividend, to the extent that there is a take up of dividend in scrip form, then we have cash available from that source that can be used for other purposes but generally speaking, the cash coming out of South Africa is for dividend paying purposes only and we receive payments on a quarterly basis, so we do look to protect the value of the rand within those short term time scales. But beyond that, I think to hedge South African cash flow incurs cost for our shareholders and I take the view, the Board takes the view that you know, that the currency risk from the Rand is very evident to our shareholders and they take their own view around that and will construct their own risk mitigation, for us to incur the cost of hedging is not something that I think is beneficial.

JULIAN ROBERTS: And the second one, looking at my colleagues, I'm not aware of anything that the FSA, Peter, do you want to say something?

PETER MANN: So the, to the paper that was produced about four weeks ago was an initial look by the FSA at products. I was at the FSA two weeks ago and it's quite clear that they're more interested in shorter term savings products such as PPI and bank issue - both structured note products. It's clear that they are not on their radar are the type of long term savings products that we typically offer in the UK, so there's no move from our part to make any change to our product plans in the light of the FSA's very embryonic investigations.

JULIAN ROBERTS: And the final question about India and China. We are keen on our businesses in India and China. We've had good growth out of them this year and we will continue to support the businesses as they grow forward. I'm fed up talking about India and will the regulations change and when it will happen; we'll just address that when it comes along. But we are supportive of both of those businesses and think they've got good potential. Anything else Kuseni?

KUSENI DLAMINI: Next question.

MICHAEL CHRISTELIS: Michael Christelis from UBS in Johannesburg. Just looking at your expense saving targets and your progress to date, I wonder if you can give me an indication of your savings to date, how much of that is run-rate and how much of that is already accounted for in the AOP numbers. And secondly, to what extent are any of these expense savings allowed for in your embedded value, both on a VNB basis and also on your existing embedded value basis?

PHILIP BROADLEY: I think the note one on the slide 25 that I showed would probably be a good test at the optician. The column on that slide that showed the £59 million delivered is the run-rate savings delivered to date at a cost of implementation of £45 million in 2010. So not a lot of benefit actually in the AOP for 2010 but we would expect to see that run rate coming through in 2011, offset by further costs to achieve that I mentioned in both Wealth Management and in Nordic and Andrew will correct me if I'm

wrong, but basically we don't anticipate expense savings in our MCEV numbers until they've actually been achieved, so again nothing in 2010 from that.

JULIAN ROBERTS: Last question from South Africa and then we'll move back to London.

KUSENI DLAMINI: Two more questions from South Africa.

LARISSA VAN DEVENTER: Hi, Larissa van Deventer from Deutsche. Just a quick question on the guaranteed tail-end risk with respect to US Life. What impact will that have on your cash available at the centre and also your capital requirements?

PHILIP BROADLEY: The press release from Harbinger last night referred to the fact that they have entered in to some reinsurance arrangements that we expect will likely lead, at some point after closing to a reduction in the redundant reserve financing that we provide. It's still our expectation that the reinsurance arrangements will lead to a release of the letters of credit that currently form part of the utilisation of our revolving credit facility, so the full amount of the RCF will be available to us for liquidity purposes thereafter and the amount of reserve that will be required against for example, carbon, would be relatively small going forward over the next two or three years and there's quite a fast rate of decay of that reserve.

JULIAN ROBERTS: Now your last question.

KUSENI DLAMINI: Thank you for giving us the last opportunity.

RISTO KETOLA, KETOLA RESEARCH: It's Risto Ketola here. Just two quick questions. Firstly, Nordic, the implied duration of that book is more than eleven years, maybe a bit of background on why is the duration so long and how comfortable are you with it? And then secondly, following on from Larissa, I know you're not taking any allowance for productivity gains but I think you did provide for the restructuring costs, so we shouldn't see a negative variance for next year, I just want to confirm that for next year, or the current year actually.

JULIAN ROBERTS: Okay, I'll ask Paul to comment on Nordic.

PAUL HANRATTY: Julian, Risto, I think Andrew probably could confirm it but basically the Nordic business writes a lot of pensions business which is very long duration and that's why you have a very long implied period for the MCEV and a relatively low release over time. I think that's right Andrew.

PHILIP BROADLEY: And on the restructuring costs, my actuarial colleagues are a conservative bunch and they've been around for a long time, so they regard project spend as continuous, so actually our expense assumptions do I think have a reasonable margin in them for restructuring costs, both in terms of the specific cost saving targets identified and also for the costs of Solvency II, after 2012, so that's already baked in.

JULIAN ROBERTS: Okay, we'll come back to the room for the last questions but we'll go to the telephone for the one telephone inquiry.

TELEPHONE OPERATOR: We will now take a question from Francois du Toit from J.P. Morgan. Your line is open.

FRANCOIS DU TOIT: Hi Julian, can you hear me.

JULIAN ROBERTS: We can hear you well.

FRANCOIS DU TOIT: Thank you. First question just quickly on the South African Life business, strong improvement in the value of in-force and it seems to have been driven by the markets, the economic variances there was I think in the second half of the year, £163 million, so it's ZAR1.8 billion. Can you maybe give some more colour to that. How much of that came from the equity market, how much from change in the swap yield curve and how much is from the level of the yield curve. That's the first question. And maybe you can think of giving us that sort of information in the embedded value statements in future, given that so much of the value of these businesses are derived from fees from assets under management and therefore from market levels as well.

PHILIP BROADLEY: Andrew is flicking through his actuarial schedules and so he's ahead of me in trying to come up with that. Why don't you ask the second question?

FRANCOIS DU TOIT: The central costs increased quite a bit. Is this I think ZAR93 million of operating and administrative expenses in the other division, which is a big increase on last year and certainly a big increase on what looked like an improvement at half year. Then, in addition to that, there's inter-segment expenses as well, which hasn't been allocated to any other divisions. Can you maybe go through that and maybe give us an indication of what you expect that those expenses to be long term and how much do we need to provide for and value outside of the Life businesses?

PHILIP BROADLEY: I'm afraid Francois, I was not recognising the numbers that you were describing in terms of central costs which actually, in Sterling terms, I believe have fallen over the year.

JULIAN ROBERTS: We'll come back to you on that one. I have to say, I think one of the things maybe driven by our Solvency II iCraft project but we'll come back on that one as well. Paul, is there any comment while Andrew is still studying his schedules on the in-force and the variances?

PAUL HANRATTY: Sorry, I'm still trying to understand Francois's question, sorry.

JULIAN ROBERTS: We'll have to come back on that. I'm sorry; we haven't done a very good job on your questions, so we'll have to get back to you.

MARCUS RIVALDI: Hello. Marcus Rivaldi here from Morgan Stanley. A couple of questions please, related to the US Life sale please. Just in relation to your previous comments, the original delay of closing this deal was, I think designed to allow a re-negotiation of the sale agreement; to effectively cut, make this

a much cleaner cut sale between you and Harbinger. Given that reinsurance arrangements, or whatever they may be are not necessarily going to be in place at closure, does that mean that we should expect that the original sale terms are broadly as they were when you first announced this deal. Secondly, you've been obviously doing a good job in selling down some of the more problematic assets, does that mean the full, $125 million, that was originally to be held in escrow, is now yours? And then finally, there was talk about having to deliver a business with an RBC ratio of over 300%, given it's 350%, does that mean you'd expect to get an additional payment out of this business going forward?

PHILIP BROADLEY: The problematic assets have all been sold so there is no amount is escrow. You're right that the press release that we set out in December described the fact that we were looking, rather we were giving time to Harbinger to explore reinsurance arrangements. As I said, their press release of last night confirms that those are in place and therefore we would expect those to come into operation, if not at closing, shortly thereafter and in terms of the delivery of the business with an RBC ratio, our requirement was to deliver something to them with, if I recall correctly an amount in cash of capital and that we have, as at the 31st December, that we've done. We've taken out the dividend that I described earlier, $59 million of which relates to OMFLIC. Any capital gain after 31st December is for the account of Harbinger, so look at it in terms of consideration now, of $350 million, plus the benefit that will come from further release of capital, over time from OMRE.

JULIAN ROBERTS: So you can see, during this period of time, a lot has been done and it will end up as a much cleaner transaction when it closes.

MARCUS RIVALDI: So just to be clear, they have signed with Wilton Re, reinsurance arrangements then, for this transaction?

PHILIP BROADLEY: I quote from their press release, 'Further value secured through comprehensive life reinsurance commitment, provided by Wilton Re to address life insurance redundant reserve requirements'.

MARCUS RIVALDI: Thank you.

JULIAN ROBERTS: Let's go to the back, we never take a question from the back.

GORDON AITKEN: Thanks. It's Gordon Aitken from Royal Bank of Canada. A couple of questions on the UK platform business. You've obviously built a leading platform business in the UK. What's the ability to transport that platform business overseas, in terms of the knowledge, the technology and also the distribution capability that you've built up. And the second question is also on platforms, I mean the platform market, if I take the twenty two platforms out there at the moment, it's probably sitting roughly under two hundred billion of assets. I mean that's still less than 10% of the, you know, if you take the non mortgage retail assets out, they're anything between two and three trillion. Ultimately, how big do you think the platform market could get?

JULIAN ROBERTS: That's the big question and I'll ask Peter to comment on that. Look, the fact is that you know, the platform is IT and maybe at some stage we will re-use the IT, go into multi currency. Where

we're really looking is to make sure that we can, just like the spectrum range of funds, we can take some of what we do and use it in other geographies and that is the first push moving forward and I think then the second piece, yes, I think a lot of the technology, in due course we will be able to use. But that's not the highest priority at the moment, the highest priority is to make sure that we are expanding the value chain to get the returns. Peter.

PETER MANN: How big can it get? In 2008, Datamonitor produced a report that said by the year 2012, the anticipated funds under management from new monies flowing into platforms would be £300 billion. As at the end of 2010, we were at about a 175, 170, 175 billion, so you can see what scope there is for new funds. The answer I think is in the question, that deals with new fund flows, clearly there are significant funds locked in more traditional life assurance policies, particularly with-profits policies. Clearly it's difficult for IFAs, Independent Financial Advisors, to access those because they often come with surrender penalties but we're seeing more and more of the value in that book being unlocked and if we can unlock that value, AXA estimated that the amount of money locked in those policies in 2009 to be £2 trillion, so it's a big market.

JULIAN ROBERTS: I think we'll have two more questions from here and then one more question on the telephone.

KEVIN RUDD: Thanks. It's Kevin Rudd from Investec. A very simple question, you said you're not going to reduce liquidity at the centre and you've very encouragingly said we're now going to see a progressive dividend. Given all that and your target of reducing debt by £1.5 billion by 2012, that looks a stretch unless we've got a major disposal on the way. Is that the way we should look at it and is that repayment aim contingent on another major sale or is there a cunning plan 'B'?

JULIAN ROBERTS: We're not going to go and make any comment into how we are going to achieve the debt repayment so you're not going to get a break down of that. We have very clear internal plans and know how we are going to achieve it. And to be honest, we've had a, you know, the debate really on the dividend is we have got a significant debt programme. But the statement we wanted to make is we believe the confidence that we can afford the dividend and we wanted progressively to increase that towards the cover target that we've got. But we do have to have cognisance for the debt repayment target we've got. But no further detail on that I'm afraid today.

We'll go to the last question on the telephone and then we'll go for Blair for the last question, oh, it's via the internet is it?

PHILIP BROADLEY: Yes, that one. You've got to read it out.

JULIAN ROBERTS: (reading) "Good morning ladies and gentlemen. One simple question, the Old Mutual share price is trading at a significant discount to the embedded value per share. Could you give us your views as to why that is and how you're to plan to address this deep discount situation?"

I will have probably fifty different views of what to do. What we are trying to do, thank you for the question, although we don't know your name and where you've come from, so maybe it's a plant from my staff.

Look, our strategy that we announced last year is to do precisely that. We believe by improving the ROE that we've got from the long term savings business, by doing that, by growing the business, taking out costs and I hope you agree, I think Paul and his team are doing a fantastic job hitting those early targets. So we aim to improve the quality of that business and by doing that and also simplifying the Group, and taking out the complexity, we believe we get a better business. We think in the past we haven't run the business that well so I think much of the governance model and the way we do things to make sure we get lower breakages, all of those things together, we believe that we've got a good business here that we can make better, so by getting better returns, more confidence in the market, I am hopeful that that will feed through into a much improved rating.

Your last question, Blair.

BLAIR STEWART: Thanks. It was fairly impressive that Philip managed to send that question in from the podium. I've got two questions. One is for Peter. Just on the retail distribution review, what impact you would expect that to have on your basis points fee, on an on-going basis and also on the cash flow of the UK business, given that you'll be paying less up-front commission to IFAs or paying no upfront commission to IFAs. And the second question is really a general one. It seems ex US Life, that the business looks over capitalised on a Solvency I basis. Is the message that the business is over capitalised on an economic capital basis as well, without giving us the numbers because I know you can't. Thanks.

PETER MANN: I think the retail distribution review is now clear and a clear path forward for us and IFAs has been established. We await the outcome of the platform paper and my sense is that we will get that, George is probably better than me at commenting on this, towards the end of the next quarter. We've already committed in our plans to build an unbundled offering for the UK business, towards the latter part of next year and it's quite clear that that will have a discreet platform price, so it will be expressed as a number of basis points and that will have two effects. First of all it will smooth our revenue flows, because clearly, we won't be subject to market vagaries as much as we are currently and inflows of different equity funds. So that will be a more constant stream of income and also, you're quite right, we will then only facilitate advisor charging rather than be involved in the payment of commission. So we will be agnostic in terms of advice charge and therefore no strain on our product accordingly.

BLAIR STEWART: Any idea what the impact of that would be Peter? What's the impact of the strain at the moment?

PETER MANN: The current average initial commission that we pay is 1.6%, and the average renewal commission is about 0.65%, trail commission, which you either pay as nominated trail or funds under management trail and I guess we're typical for the marketplace.

PHILIP BROADLEY: On Solvency II, as we continue to navigate our way with the imperfect chart, currently provided by those in charge of European regulation, I think I can point you to two things. Our MCEV statements, do give you a sense of what our capital requirement is on an economic view, on a risk free basis of future returns, so I think that gives you some sense of capital requirement and our capital

resources are as they are today, again set out in the Group Finance Director's Review, there is some element of hybrid debt in both tier one and tier two. Currently we believe that that capital will continue to be permitted to counters within our capital resources and so that enables you to form your own view as to how we might look on a Solvency 2 basis and I think as we look at things today, we're comfortable with how our position might unfold as we get closer to the implementation date, from understanding exactly what will be required of us.

JULIAN ROBERTS: Very well answered without falling foul of the regulator in the room. And so that I can very smoothly make sure that all of my Executive Team have said on the front row, have said something, I'm going to go back to Francois question, Andrew, are you going to answer that one?

ANDREW BIRRELL: Julian, as I recall, Francois question, it was how much of the below the line movement in South Africa was due to equity movements and how much was due to other movements? And roughly, 85% of that number was due to equity movements, equity markets being better, so that gave us that investment variance. And the balances or net effect of swap yields coming down at the short and medium durations as well as a strain that we took because of our investment guarantee reserve and how the movements in markets there affected our expected future cost in respect of those guarantees.

JULIAN ROBERTS: Ladies and gentlemen in Johannesburg, here in London, on the phone, thank you very much.

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