OLD MUTUAL

2011 Preliminary Results presentation
TRANSCRIPT

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9 MARCH 2012

Prelims transcription

Title slide 1: 2011 Preliminary Results

JULIAN ROBERTS:

Everybody has gone quiet so I suppose I ought to say something. Welcome to everybody. Welcome to you all here in London and to those of you in Johannesburg. Up on the screen you can see, here in London, Ralph Mupita, our new Chief Executive of Emerging Markets who is hosting us there. Welcome Ralph and welcome to everybody joining us on the phones and the webcast.

Slide 2: Disclaimer

Slide 3: Agenda

In the front row, dotted around there are a few key players in our management team. Paul Hanratty is in the second row and Peter Mann here is in the front row. In case you want to ask the detailed questions on RDR, Peter is our guru on that subject. Sitting next to me of course is Philip Broadley, waiting with baited breath to go through the financial results but let me start.

Slide 4: What we said in March 2010

In March 2010 I stood here and showed you what was effectively this slide. I said that we were going to make fundamental changes to the way we did things with particular emphasis on three areas. Firstly, the customer; putting them right at the heart of the business, understanding and responding to their needs. Secondly, operational efficiency, taking out £100 million pounds of costs and managing for value with a ruthless and disciplined approach to risk management, governance and allocation of capital. And thirdly, structure; simplifying our structure to unlock value, paying down debt and improving the quality of our balance sheet. I also showed you the return on equity and cost reduction targets that we'd set out for our business.

Slide 5: What we've done

We have been consistent and persistent in our pursuit of these changes and targets. On the slide, I know it's probably too detailed for you to read, but on the slide I've listed all the things or many of the things that we've done. And on a one and three year basis, we have out-performed our South African and our European peers on total shareholder return. We haven't achieved everything yet. There is still some work to be done, but two years into a three year programme of change, I hope you will agree that we are making excellent progress. And I think it's appropriate to recognise the sheer hard work and commitment of my management and all the staff that has helped to bring that about.

Slide 6: 2011 – a year of delivery

I've been very clear that 2011 would be an important year of delivery for us and that is exactly what it was. We continued to progress our strategic aim of restructuring the group for simplification and value. With twelve months still to go we have achieved already most of our 2012 targets or have a clear path to that achievement. And we've done all of that without allowing ourselves to become distracted. Let's look at how all of this was translated into the financial results.

We delivered three excellent quarters of operational performance with the fourth quarter unsurprisingly, with everything going on in Euroland, slower. But in a tough year globally, we delivered a strong operating result.

Slide 7: Group overview

Adjusted operating profit was over £1.5 billion, up 14% in constant currency. Earnings per share up 13%. Return on equity was 14.6%, up 40 basis points in the year. And, subject to shareholder approval, for our final dividend, we'll pay a total ordinary dividend for the year of 5p per share, up 25% on 2010.

Now, rather ironically, one of the consequences of the simplification we've undertaken is that, during the period of transition, the presentation of our financial results looks a little complicated, due to the number of moving parts. Philip will take you through that and talk about the strength and quality of the underlying business performance, so Philip, over to you.

Title Slide 8: Business & Financial Review

PHILIP BROADLEY:

Thank you Julian and good morning everyone both in London and Johannesburg. As usual I will start my presentation this morning by picking out some of the key features of our financial results and will talk about the generation and use of cash. I appreciate that year on year comparisons are made harder this time by the accounting consequences of our simplification agenda and I'll try to guide you through that. After talking about 2011 trading, I will go on to look at the development of our balance sheet and our dividend and then, finally, I will give an up-date on our continued delivery against the cost reduction and return on equity targets.

Despite all the changes that the Group has gone through, we are very clear about the metrics that matter to us and therefore you will recognise many of the charts that I'll show this morning as updates of ones from last time.

Slide 10: Macro background

Let me start with a few words about the macro background in 2011, to try and put our results in context.

At the half-year, I talked about volatility in equity markets as we saw them at that point in early August. If only I could have looked forward because the first half of the year was, in retrospect,

relatively benign compared with the movements we saw in the second half and, as you see in the chart now, particularly in the third quarter. For example, while the FTSE-100 index was virtually flat over the first half, it then fell 2% in July, 7% in August, 5% in September and a further 4% to hit a 2011 low on the 4th October, although by the end of December, it had recovered a fair proportion of those losses and ended the year around 6% down on the previous year-end. The JSE All-Share index fell 11% between the 30th June and its low point for the year in August, but then ended the year broadly back where it started.

Looking at currency, which is important to us also, the US dollar weakened against sterling in the first half of the year but strengthened again in the second half and ended the year virtually unchanged. But in contrast, the Rand continued to be volatile over the year with a substantial weakening in the third quarter. And, on average, in 2011 it was around 3% weaker against sterling than in 2010 but 22% weaker at the end of the year compared to its start. So the net effect of currency in 2011 on our results was to reduce Group AOP by approximately £40 million and shareholder's equity by around £1.3 billion.

Slide 11: IFRS simplified operating result

Turning now to the financial results in more detail and starting with the IFRS profit. Under accounting standards we are obliged to report Nordic as if it were held for sale at the 31st December and therefore exclude it from the Group's core operating result. For the purpose of comparison therefore, we have restated our 2010 core results as well. Note however that, in calculating our pence per share metrics, we've used as the denominator the shares that are in issue today, prior to the planned "seven for eight" share consolidation to be voted on by shareholders next week. So you should anticipate that our 2012 results will change again, assuming that the consolidation is made, and we will update you on the effects of that prior to the half year.

In 2011, the core continuing operations of the Group generated £1.7 billion of IFRS adjusted operating profit before tax, non-controlling interests, corporate costs and interest changes. That's up 9% on last year.

The tax charge of £341 million is at an effective rate of 23%. Last year it was 24%. There is a higher cost of the secondary tax on companies, on dividends, that increased the rate in South Africa, but it was offset by a lower rate in Wealth Management. Looking forward, depending upon market conditions and profit mix, we do expect a future effective tax rate trending towards 25% to 27%.

Post tax and non-controlling interests, the AOP from core continuing businesses was up 11% at a little over £1 billion. Around 61% of this came from the long-term savings business at £644 million, as you see on the right hand side of the chart.

Our post-tax share of Nedbank earnings was £298 million and our share of their final dividend will be over £70 million, the exact amount depending on the exchange rate when that dividend is paid to us in April.

Mutual and Federal contributed £59 million of operational earnings. The business is seeing a return to a more normalized pattern of underwriting results after a very favourable period in 2010 and the

early part of 2011 and, in this environment, we expect to see underwriting margins continuing to be squeezed. In 2011 M&F incurred a higher level of expenses due to investment in process and customer service improvements, and the financial benefits of which will not come through until 2013. The business will continue to focus very closely on managing and reducing its expense base.

Finally on this slide you see US Asset Management delivering £59 million of post-tax earnings, flat on 2010. Note that these figures exclude gains or losses on seed capital, which we are now capturing at the Group level with the 2010 figure restated accordingly. Average funds under management were down 2%, resulting in lower management and performance fees, although transaction fees were higher than in 2010. I will come back to talk more about asset management in a moment.

Slide 12: Sources of earnings

Let's now look at the sources of earnings, using the chart that you will hopefully be familiar with.

Fee income was up 5% on 2010 and underwriting revenue was up 4% - and these two items together continue to account for over half our earnings. A further 38% of earnings came from banking net interest income and non-interest revenue, the third and fourth columns along.

Debt costs were flat on 2010, with an increased charge in the second half of the year due to the new, higher coupon, instrument that we issued in June and you will recall that we flagged that in our interim results presentation.

Administration expenses were up 6% year on year to £3.7 billion. We highlighted the principal reasons for this increase at the half year; essentially it is the cost of business transformation initiatives, business expansion and also wage inflation in South Africa.

Acquisition expenses were up 9%, primarily due to increased trail commission, resulting from higher average funds under management.

Slide 13: Long-Term Savings

We now go on to look at Long-Term Savings in a bit more detail and starting with net client cash flow.

Emerging Markets delivered a positive net flow. That's the bar at the bottom of the column marked 2011. Flows in South Africa were negative for the year as a whole but substantially better than 2010. Outflows from funds managed on behalf of the Public Investment Corporation in South Africa halved compared with 2010. As anticipated, there were no outflows from PIC in the second half.

The effect of higher sales volumes in the retail businesses was positive and, in the mass foundation market, there was a positive effect of improved debit order premium collection as well as maturity payouts which stabilised at a lower level than in 2010. The positive retail flows were offset by negative flows in the corporate division and at OMIGSA, although both of these were better than 2010.

Elsewhere in Emerging Markets, net client cash flows were up 14% at R8.7 billion with continued strong performance from Latin America.

The net flow in Wealth Management was zero in the fourth quarter but for the year as a whole was £2.5 billion positive. As previously reported, the decrease from 2010 was in large part due to reduced inflows in Italy and the withdrawal of certain products in the UK in anticipation of RDR.

The fourth quarter was affected by the withdrawal of a block of institutional business by Mercer, the corporate pensions provider. However, as you know, our main focus on the platform is retail funds and retail sales were creditable even in the fourth quarter with independent research by Platforum indicating that we had outperformed our competitors.

Net flows onto the UK platform for the year were £3.3 billion and funds on the platform at the year-end were close to £19 billion, and at the end of February this year had grown to just over £20 billion.

In Retail Europe, improved fund values led to higher surrender values despite an overall improvement in persistency. Net client cash flows were lower than 2010 but remained positive at £300 million.

Despite the positive NCCF, Long-Term Savings funds under management were hit by equity market movements and, in the case of the Emerging Markets business, rand weakness in the second half.

On average, over the year, funds under management were 6% up on the 2010 average, giving rise to the improvement in income that I talked about. And, on a constant currency basis, funds under management at the year-end were up 1% on December 2010.

Looking now at profit. Long-Term Savings AOP was up 3% in constant currency at £793 million. 94% of that was generated by the Emerging Markets and Wealth Management businesses; so let me talk about each of these in turn.

Slide 14: Emerging Markets

Overall AOP for Emerging Markets was up 9% at R6.6 billion. About 60% of this comes from the South African Retail Affluent and Mass Foundation markets which increased their profits by 12% and 28% respectively.

The chart on the top right of the slide shows the quarterly life APE sales for the past two years for these two markets and you can see quite clearly the continued strength of Retail Affluent but also the rapid growth of Mass Foundation.

Moving back to AOP, the Corporate result was affected by the prudent provisioning taken in the first half in respect of the Investment Guarantee Reserve. Excluding this effect, Corporate profits would have been up around 2.5% in the year.

In the shareholder circular issued last month, we flagged that, in 2011, we have consolidated our African operations in to the 'rest of Africa' caption, as they have now become meaningful in size. We

have not restated the 2010 result, which included only Namibia, and therefore prior year comparisons for the 'rest of Africa', I acknowledge are difficult this time round.

OMIGSA profit was down 14% year on year, primarily due to weak performance in the second half of the year with lower transaction income and performance fees compared to a strong result in the comparative period.

Administration and other expenses were down by 19%.

Slide 15: Wealth Management

In Wealth Management, the underlying AOP grew 21% year on year. This excludes the benefit of prior-year policyholder tax smoothing or, more accurately perhaps, the smoothing of prior years' deferred tax assets, most of which arose in 2008 and 2009 from market-related falls in policyholder assets. The 2011 benefit was substantially less than 2010 and this smoothing of prior years has now finished. But, as you know, the UK unit-linked business does benefit from a structural tax efficiency that we expect to continue.

The improvement in Wealth Management's underlying AOP is largely attributable to the early delivery of its cost reduction target. Administration expenses were more than £40 million pounds lower than in 2011 than in the prior year, which is a huge achievement by the team.

The value of new business increased by £4 million to £70 million. The International business contributed over two-thirds of the total and increased its APE margin from 19% in 2010 to 23% this year. This is the result of actions taken to improve the product mix, specifically managing a reduction in low-margin, regular-premium products whilst focusing on sales of higher-margin portfolio bond products.

And here, in the chart on the bottom right of the slide, you can see the trend in net client cash flows and funds under management for the UK platform. Funds under management are up nearly 2½ times in three years and we have achieved net client cash flows of over £3 billion in each of the past two years.

Slide 16: Nordic

Although we have not included Nordic in our core operating results, I think it is worth pausing at least momentarily to look at their performance in 2011. After all we didn't announce the sale of the business until 15th December.

Once again the business performed well and delivered a good result. Life and non-covered sales were up; the value of new business and APE margin both increased; net client cash flows were down a little; and funds under management were affected by stock market falls.

You may recall that 2010 AOP was flattered by a one-off private equity gain and that, as part of the cost reduction targets or achieving them, we incurred restructuring costs of SEK 49 million in 2010,

with a further SEK 140 million incurred in 2011. So, if you strip out those effects, one-off gains and costs, underlying AOP improved by 15% which is a strong result in a tough market.

I think the performance underlines the fact that this is a good business with excellent prospects in the future combined with Skandia Liv.

Slide 17: USAM NCCF

Now, moving on from Long-Term Savings and looking at cash flows in the US Asset Management business in a bit more detail.

Flows improved considerably in the fourth quarter. It was in fact the best quarter for net flows in over two years, which you can see illustrated in the top chart on this slide. In line with trends previously discussed, the funds we're gaining are in general at a higher margin than the funds we're losing.

For the year as a whole, net flows from short-term funds were a negative $16.3 billion. Only relatively small amounts of new money came into these funds whilst outflows continued and this is illustrated in the chart on the bottom left. But in contrast, looking at the chart on the bottom right, you can see that we've continued to build long-term inflows and in the year as a whole we gained over $26 billion of new money in long term funds, whilst at the same time, outflows appear to have stabilized over the year.

Slide 18: USAM

More interesting perhaps is the analysis on this slide. You have seen our various announcements in recent months in relation to certain of the affiliates: Our transfer of the ownership of Lincluden, to the firm's management team closed at the end of December; the acquisition by Touchstone of certain assets of Old Mutual Capital is expected to complete in the second quarter; and last month we announced the sale of Dwight Asset Management, also expected to close in Q2.

So we have now split out the flow data to separate what we have called our continuing operations from those affiliates we have disposed of or are held for sale. And on that basis you can see that our continuing businesses delivered a considerable improvement in net cash flows.

And if we go further and look at margins and AOP, the continuing business delivered an operating margin pre-minorities of 22% for the year. Including the non-continuing affiliates the margin is only 18%. And taking out the restructuring costs incurred in 2011, continuing business AOP was up 16% year on year.

We believe that investment performance is a leading indicator of future flows and, during 2011, the investment performance against benchmarks for continuing operations improved across the one, three and five year periods.

These are good results and they demonstrate the early impact of the efforts being made by the new management team to re-focus the business. However one swallow does not a summer make and,

whilst the early signs are good, we are cautious about concluding that we have turned a corner while market volatility and uncertainty remain. The business will continue to focus on initiatives aimed at managing clients-at-risk and building inflows.

Slide 19: Drivers of profitability

The next chart is one we've used before and it shows the movements in funds under management and the net margins earned by Long-Term Savings, Nedbank and US Asset Management. Here note please that Long-Term Savings excludes Nordic, but the US Asset Management does include the disposed of and held for sale affiliates.

I have talked, not only this morning but previously at our half-year results presentation, about the factors behind the changes in funds under management and their profitability. I include the chart here simply to remind you that we make a substantially greater margin from funds held within Long-Term Savings than we do from funds held by US Asset Management.

Slide 20: Nedbank

Nedbank published their own results last week and I hope that you have had the chance to at least look at the headlines. So in the interests of time this morning, I won't go through their numbers in detail. I will just say that the bank is continuing to perform extremely well with an impressive 29% increase in AOP, a 17% increase in non-interest revenue, reduced impairments and a core tier one ratio of 11%.

Slide 21: MCEV

Now turning to MCEV and a few of the key metrics for 2011.

We delivered a strong operational result with MCEV operating earnings of 19.4 pence per share. Note that this figure includes the earnings for Nordic; and the results for 2010 include both Nordic and US Life.

13.4 pence per share was generated by the covered, traditional Life business, up 22% on the prior year due to favourable mortality and persistency experience and improved new business contribution. These improvements were partially offset by an adverse contribution from methodology changes.

Within Long-Term Savings, the Wealth Management MCEV earnings rose significantly to £184 million and Emerging Markets was up a little at £349 million.

Covered business VNB, PVNBP margin and APE margin all improved on the prior year.

The non-covered business operating earnings were up 33% at 6 pence per share. Higher banking profits, as a result of greater fee income and lower bad-debt charges as already mentioned, more than offset the effects of lower profits coming from asset management.

As at 31st December, the adjusted Group MCEV per share was 194.1 pence, down on 2010. The principal movements in the year, offsetting the earnings I've described were a 20.9 pence per share reduction in the embedded value due to foreign exchange, most particularly the rand weakness. Economic variances were 7 pence negative due to adverse market movements and there was a 4.1 pence negative effect resulting from the issue of new shares for the scrip dividend. On the positive side, we received an 8.3% [*should have said 8.3 pence]* uplift from the sale of US Life as previously reported.

Slide 22: Reconciliation of AOP to total profit

I thought it was worthwhile this year talking through the reconciliation of AOP to IFRS total profit after tax. Normally this chart goes in our appendix and I've not spoken about it. But we have brought it forward this time to our main presentation as a couple of the moving parts, I think, warrant a bit of explanation.

So the first of them is the £249 million in green which is the addition of prior year profits from Emerging Markets. Having consolidated the 'rest of Africa' operations for the first time in 2011, as I explained a little earlier, the prior year profits have been booked in total profits but not in AOP.

Secondly, we are required by accounting standards to look at goodwill each and every year and this year we have recognised a £264 million goodwill impairment for our US Asset Management Business. The reason for the impairment follows on from the methodology we use for determining goodwill. We have reduced our growth rate assumption for funds under management in the US as a whole, based on the long-term outlook for nominal GDP growth being lower than we had assumed in the past.

Other adjusting items include a £171 million charge for short-term fluctuations in the investment return and £129 million charge in respect of acquisition accounting, principally the amortisation of the present value of in-force business. So those are the two items in the '323' bar.

Then our non-core business of Bermuda generated an IFRS pre-tax loss equivalent to £183 million. That was driven by equity market movements in the second half of the year, as the business was in fact profitable in the first half.

The profit in relation to discontinued operations includes £68 million of post-tax profit for Nordic as well as £130 million post tax gain from the completion of US Life, and that latter item represents principally the re-cycling to the income statement of the available for sale reserve and foreign exchange. And it compares to a loss of over £700 million that we recognised in 2010 which was principally the impairment of the US Life business prior to sale.

If you are looking for the profit from the disposal of Nordic, you won't find it because it will be included in 2012 once the sale has completed.

Overall, the adjustments lead to a total profit after tax of £967 million compared to a loss of £24 million for the prior year. But if you strip through all of the explanations I have just given, the principal difference in the result is the swing in respect of US Life in this year and last.

Slide 23: VIF conversion to free surplus in LTS

Let me now move on to talk about cash generation using the format of reporting we published last year. Remember that we are very precise and narrow in our definition of cash. When we talk about cash we mean the holding company bank account and immediately accessible.

Let me start with the conversion from the value of in-force to free surplus in our covered business.

In 2011 our continuing long-term savings businesses generated £569 million of free surplus from the in-force books, up 10% on the prior year and some 15% of the opening value in-force.

Slide 24: Group free surplus generation

That £569 million represents part of the almost £1 billion of free surplus that we generated in 2011, which is up 32% on 2010 and let me run through where it has come from.

Total transfers from VIF were £707 million, of which £569 million came from the continuing businesses that I've just spoken about. As products have run off we have released £236 million from required capital. We have reinvested £444 million in new business, including both acquisition costs and also the transfer of capital which we are required to hold against our products.

Other movements, which are principally the effect of experience variances and assumption changes, totalled £56 million. And from the non-covered business we received £431 million of free surplus.

So if you add all of that up you get to £986 million. Of this, £627 million was remitted from the operational units to the Group. Currency and other movements added a net £181 million, leaving £540 million of free surplus in the operating business and a closing Group free surplus in excess of £2.1 billion.

Slide 25: Available shareholder cash

So that £627 million of cash from operations which you saw just a moment ago, now appears in cash flow on this chart and has been used to meet interest payments and Group costs, pay cash dividends to shareholders and also to repay £339 million of debt.

The total of the five orange blocks come to £624 million; so there is a £3 million increase in the cash retained here at the end of the year. But we have had sufficient cash to be able to reduce debt in line with our stated aim as it fell due for repayment.

Slide 26: Agenda

So that is I think probably enough about trading in 2011.

Before I move on, let me say a few words about the Bermuda business in run-off. Since the year end, rising equity markets and declining volatility have had a favourable effect on the cost of hedging strategies that involve options. We have taken advantage of this and, in the last few days, implemented an option-based hedging arrangement which will protect against downside risk from

equity markets in respect of the cash cost of meeting the fifth year anniversary top-ups under contracts that fall due between now and August 2013. Under the arrangement, we retain the potential to realise gains if equity markets move higher. We continue to be unhedged against interest rates and to dynamically hedge against currency. And we remain confident that the cash cost of top-ups can be met from Bermuda's own resources.

I will now move on to talk about capital and debt but I think to do that I need to give you some context about the effect the Nordic transaction.

Slide 27: Nordic transaction

Although we now have all the regulatory approvals, my comments are of course subject to receiving shareholder approval for the transaction and the share consolidation at the General Meeting next Wednesday.

Assuming those resolutions are passed, on completion, which is scheduled for 21st March, we'll receive around £2.1 billion of cash. We plan, as you know, to return approximately £1 billion of that to shareholders through a special dividend which we expect to pay in June at the same time as the 2011 final dividend. The balance of the proceeds will be used to reduce indebtedness. This will include a number of internal loan arrangements, for example repayment of an inter-company loan between Old Mutual South Africa and the plc. And, as you will have seen in the shareholder circular, as part of the transaction we also eliminated an inter-company loan from Skandia AB to Old Mutual.

Over and above our previously stated £1.5 billion debt reduction target, we now envisage an additional repayment of approximately £200 million of net debt. This is all consistent with our aim of increasing hard interest cover, recognising the removal of Nordic profits from the Group's operational earnings, requires us to repay a little bit more debt. We are not committing however to a specific date for that further repayment - and note that the repayment of debt instruments is subject to approval by the FSA in the UK.

The remaining proceeds, and the cash generated from other planned activities that I have referred to before, will be retained as free cash and we believe this is a prudent action in the face of the continuing volatility and uncertainty in the face of the continuing volatility and uncertainty in the current macro climate.

Slide 28: Balance sheet simplification

We said in 2009 that we wanted to simplify the business and it's important I think to recognise that one of the consequences of the restructuring initiatives that we have undertaken is that our balance sheet today looks considerably simpler. What I am showing here is of itself a simplified version of Note E to the Financial Statements. I appreciate that some of the numbers on the chart will be rather small but please bear with me.

We have reduced our senior unsubordinated debt but, not only have we reduced the level of our external indebtedness, we have also reduced the number of outstanding instruments from 17 at the

end of 2009 to 8 at the end of 2011. So that of itself I think makes for a much less complex and I hope easier to understand debt structure.

We repaid the remaining tranche of the €750 million Euro-denominated bond in January this year and so total net repayment of debt to the end of January was £600 million.

As we complete the debt repayment exercise, we will take the opportunity to review not only the amount of debt which we're comfortable with but also its type, taking account amongst other things of the final requirements and rules for Solvency 2.

And here let me digress just for a moment on the subject of solvency. We conducted the recent EIOPA stress tests on a QIS5 basis and this showed a comfortable level of solvency over the Group Solvency Capital Requirement floor. And indeed, in the tests there was no scenario in which the Group's capital fell below the SCR level.

But back to the chart. We are still working on the mechanics by which we will repay further debt over the balance of this year but, just to be clear, we do not intend at the moment to repay any further debt prior to the payment to shareholders of the special dividend. But I do expect that when I report to you in twelve months time, this schedule will look even simpler.

Slide 29: Dividend

Given our continued progress in achieving the debt repayment programme the Board is recommending payment of a final dividend for 2011 of 3.5 pence per ordinary share. If approved by shareholders, this will make a full year ordinary dividend of 5 pence per share, up 25% on 2010.

Note that, on this occasion, due to the complexities of the planned share consideration [*should be "consolidation"]*, we will not be offering a scrip dividend alternative and nor to be clear, are we offering a scrip alternative for the special.

Going forward, the Board intends to pursue a progressive dividend policy, consistent with our strategy, having regard to overall capital requirements, liquidity and profitability and targeting dividend cover of at least 2½ times IFRS AOP earnings over time.

In addition, the Board expects that future interim payments will be set routinely as 30% of the prior year's total dividend.

Slide 30: Progress against 2012 ROE and margin targets

Moving on now to update on performance against targets.

We have made good progress towards the return on equity target with all businesses now either within or exceeding their target ranges.

US Asset Management still has some way to go to achieve its operational margin target, but as you can see it is moving in the right direction and the new management team is pursuing a range of initiatives to get this margin up in to its target range as I discussed earlier. We expect to see further

advancement following the shift in the affiliate portfolio, although achievement of the target may stretch beyond the end of 2012.

Slide 31: Progress against 2012 cost reduction targets

So far as cost reduction is concerned, you can see from this slide that, at a Group level, we have virtually achieved the cost reduction target with twelve months still to go. There is not a lot to add to what I said before on this, although I would note that the cost to achieve is considerably lower than the '1.2 times' cost that we originally estimated. And we will continue to look critically at our cost base as a whole.

We are pleased with the progress we have made against our targets. I think it demonstrates the solid focus that the setting of these targets has given to business unit management.

Slide 32: Annual Report

Before I finish, there is one subject I want to raise in order to invite comment, either today or later when you have had a chance fully to read through our disclosures.

We have made a determined effort this year to reduce the length of our results announcement and our Annual Report, the cover of which you see on the screen.

We are not alone, particularly amongst financial institutions, in finding that the mandatory requirements of IFRS and narrative reporting coupled with EV disclosures and so on, coupled with stakeholder requests for additional disclosure on areas of interest, have led to increasingly lengthy reporting and criticism as to its overall value. And some of you, I am sure, will have seen the recent article in the Financial Times by Professor John Kay, who's looking at equity markets and short-termism for the UK government. Having looked at the information provided in company reporting, one of the conclusions he draws is that contrary to perceived wisdom, it is possible to have too much information and to become too focused on the tyranny of quarterly reporting. He believes it is actually unhelpful in terms of enabling stakeholders to understand the real business and progress of a company.

I would be the first to agree that the result of lengthier reporting has been to obscure some of the messages that need to be conveyed and, with this in mind, we are the first insurance company to participate in the UK Financial Reporting Council's 'Financial Reporting Lab' initiative which is aimed at finding ways of making reports more useful to investors and other readers.

So in practical terms, what we have done this year is, first, to write the results announcement in a style that makes for shorter paragraphs and generally to eliminate, where possible, duplication. So you do have to read it all to find everything. And we are making some of the supporting information available only via our website. So, as a result, when you see our Annual Report in a few weeks time, you will see that we have been able to reduce its length by at least 100 pages, as long as the typesetters don't use up all the blank space when they come to set it in the next couple of weeks. I think we have achieved that without actually eliminating any information, but it may just not be in the places where you are normally used to find it.

So I would genuinely welcome your feedback in due course, as to whether the slimmed-down reporting is helpful in enabling you to focus on what is important.

Slide 33: Financial Summary

And what is important and, finally, in summary, is the following.

We continue to see a shift from covered to non-covered sales in the investment business. Non-covered sales continue on a strong trend, up 13% year on year. Life sales were down 6% due to both the unsurprising fourth quarter slowdown as well as continued actions to refocus on products with higher profitability.

We generated almost £1 billion of free surplus and, from continuing operations, delivered over £1.5 billion of pre-tax operating profit, earnings per share of 15.7 pence and return on equity of 14.6%. The adjusted MCV per share was 194.1 pence.

We retain a strong capital and liquidity position. Our FGD surplus at the end of the year was £2 billion and we had available cash and undrawn facilities of £1.5 billion. We have simplified our balance sheet and, if the Nordic transaction is approved by shareholders next week, will have increased further our financial flexibility. And, in addition to the 18 pence per share special dividend, the Board is recommending a 25% increase in the full year ordinary dividend.

With that Julian, what's happening next?

Title slide 34: Concluding remarks and summary

JULIAN ROBERTS:

Thank you very much Philip.

Slide 35: Agenda

Both within the company and externally, people have been asking why, strategically, we are disposing of the Nordic business. So, before moving on, I'd like to take a minute to talk about the shareholder value we created from our original acquisition of Skandia in 2006 and the crystallisation of value that the sale of Nordic will trigger.

Slide 36: Crystallising value through our Nordic transaction

We paid roughly £4 billion, a mixture of cash and shares, to acquire the Skandia Group and we set out on our journey to improve the business. During our ownership the Skandia businesses have remitted to the PLC over £800 million of cash, arising from operational and capital flows. Final net proceeds from the sale will be £2.1 billion. So we have realised to date some £2.9 billion from our original investment. This means that, effectively, the remaining business - comprising Wealth Management, Retail Europe, Latin America and China - cost us just over £1 billion.

Now, if we use MCEV as a valuation metric, as at the end of 2011 the business had an EV value of £2.9 billion; so, deducting the remaining investment from the remaining value, results in a surplus of just over £1.8 billion.

Although we were more than comfortable with our ownership of Nordic, and Philip commented on the excellent performance of the business in 2011 and its strong prospects, the financial implications for Old Mutual of the sale meant that this was a transaction we had to do. Not only have we crystallised value, but the proceeds have transformed our capital position and give us substantial flexibility. And more importantly it allows us to focus on opportunities to improve our businesses. But, to be clear, the sale does not change our long-term savings protection and investment strategy.

Slide 37: Agenda

Now let's move on. Our business has been through considerable change; it is leaner and fitter, with stronger management teams. We are pushing hard to deliver sustainable profit growth. Most importantly, we are well positioned in markets that we want to be in and where we believe we can produce most value. There are three key areas that we are focusing on so let me talk about each of these in turn.

Slide 38: Expanding our footprint in Africa

We believe there is huge potential for us in Africa. Economic and demographic trends are changing the landscape for financial services. The number of households with discretionary spending power is increasing and there is an emerging middle class with a need and an appetite for financial products. Financial services markets generally have low levels of competition and they're at different stages of their life cycle in terms of penetration of insurance products.

Let's take for example Nigeria, where we recently announced our intention to buy Oceanic Life, the Nigerian life assurance company. From 2001 to 2010, Nigeria was one of the top ten fastest growing economies in the world. Annual GDP growth averaged 8.9% and is forecast to be almost 7% over the next five years. It has a very large population, some 150 million people, but its insurance penetration is low at around half of one percent. Research shows that the insurance penetration increases as GDP per capita increases, stabilizing at between 5 and 8%. The simple maths tells you the scale of premiums the Nigerian market could generate if its penetration reached that sort of level. And that is replicated throughout Africa.

Slide 39: Expanding our footprint in Africa

Over time, we aim to have a substantial presence in the larger African markets which are growing fast and where there are few existing players.

We have the ability to expand in Africa because I believe we have the right skills, we understand the markets and we can leverage the expertise and scale of three strong South African businesses.

Let's take Old Mutual South Africa. It is firmly positioned in the Retail Affluent market and has the largest share of the Mass Foundation Market which is growing, as you know, very fast. We believe

the recent South African budget is good news for growth prospects in Mass Foundation. In fact the budget statement pointed to recovery in economic conditions overall, with consumer demand holding up. We as an organisation, OMSA, created over 650 new jobs in South Africa last year and Nedbank created nearly a thousand on top of that.

In South Africa we are broadening our product range, growing our distribution sales force, expanding our branch network, using new distribution channels including mobile telephony, and building new partnerships and alliances. These skills are all needed across Africa and are exportable.

So our approach to expansion is twofold:

Firstly we're using what we call our 'business in a box' model. This takes what we have in South Africa, and uses common products, processes, IT, that can be replicated across markets with limited local customisation. This increases our speed to market as well as reducing costs and risk.

Secondly, we're using strategic alliances. You will have noticed that as a Group, we have a strong relationship with Ecobank, the pan-African, full service bank. Ecobank has an alliance with Nedbank but what you may not know is we are their preferred partner for insurance business in Africa. We have signed a 10-year distribution agreement with them in Nigeria to supply our products via their branch network which now numbers around 600 branches. Our experience in African markets, our brand heritage, our governance, our control mechanisms, make us, I believe an attractive partner.

We are excited by the opportunities for growth in Africa and are confident that with our firm base, our experience, our management expertise, over time we will build a strong position.

Slide 40: Growth through our UK platform

In Europe, our low-risk unit-linked business has great potential to grow as consumer confidence returns to the marketplace.

Our UK platform continues to be the largest retail investment platform in the UK. Assets increased by 13% in 2011 and are now just over £20 billion. We're close to our critical mass and the platform is profitable before investment.

There is no doubt that the platform market is growing. In three years it has doubled to over £170 billion of assets, still well short of the total accessible market. Today, around a third of UK retail business is conducted on platforms. We expect that to be over two-thirds by the end of the decade. The advised market accounts for 75% of sales and more than 90% of independent financial advisors now use platforms as part of conducting their business. Around 9,000 advisors use the Skandia platform and that figure is pleasingly increasing all the time.

The Retail Distribution Review will create challenges though for those platforms that have not prepared for the changes that it demands and it will hasten a squeeze on margins. In the UK there are currently around 20 platforms, some of which have gathered a disappointing level of assets over a long period of time. The shake-up that will follow RDR is likely to make it difficult for sub-scale platforms to maintain a continued presence in the market.

The whole UK industry experienced a slow-down in sales in the fourth quarter of 2011 and has seen a slow and cautious start to 2012. Maybe we can hope that the news of the position in Greece today may be the trigger to bring a degree of stability back into the Eurozone and therefore, as the slow-down started with the disturbance in the Eurozone in the third quarter, let's hope that we see a continued growth coming back in to the markets and confidence in 2012. Consumers are reticent, I believe because of that slow-down in Europe, to invest in what appear to be unstable markets.

For us ourselves, over the next few years, we will roll out other products on to our platforms. For example increasing decumulation products and further alternative investment solutions. These products will allow us to generate greater returns and profitability and get us closer to what our customers need.

We have a leading platform in the largest segment of the retail investment market. We are growing, we are in a growing market that we know well and I am confident that we will continue to attract customers, grow assets and deliver sustained profit growth in the future.

Slide 41: Turning round US Asset Management

Finally, let me turn to the US. As you know, this is the largest asset pool in the world and is likely to stay that way for some time to come. Its economy is showing signs of recovery and, as elsewhere, demographics are driving a need for saving solutions with income generation and risk protection high on consumer agendas.

Industry trends are shifting from focused-asset classes to multi-asset classes. In fact when we look at successful global asset management businesses, the common thread is the generation of positive alpha through a combination of global, emerging markets and US equities, as well as global and emerging market debt. We have certainly seen a growing desire for emerging market exposure within our portfolios.

We operate our boutique model and are confident that this is and continues to be the right model for this market.

So let's look at where our US business is today. The fourth quarter of 2011 was the best quarter for two years, as Philip has said. Investment performance is moving ahead well. Net outflows are slowing, margins are starting to get closer to our target and profits for 2011 for continuing operations were up 16% to $131 million.

In 2011, we focused on the key affiliates. We exited the US retail and stable value markets because they didn't fit with our institutional base. We now have a more coherent range of boutiques which are strong and capable with asset classes that the market wants.

We are building a global distribution capacity, leveraging the retail hub we have here in OMAM UK.

After three years of under-performance, this business is heading in the right direction. By continuing to serve the needs of institutional clients through a clear strategy of active investment management

and a focus on alpha generation, I believe that it is in the right space to take advantage of opportunities for growth in its market.

Slide 42: Summary

In summary, two years into a three year programme of change, we are making good progress and have shown that we are prepared to take difficult decisions. But we still have work to do and we are determined to keep our focus on improving our businesses. We will continue to consider all options for further creation of shareholder value.

It is clear that volatility and uncertainty in the macro-economic environment continue to create challenges for companies. We live in tough times but we are tough too and I am confident that we will continue to improve and outperform.

Let me sum up in three simple messages: One, 2011 was a year of delivery, operational and strategic. Two, our businesses are in good shape and are performing well in markets that we want to be in and where there are exciting opportunities for growth . And three, we now have the capital strength that gives comfort to our customers and financial flexibility which enables us to both invest for growth and also to reward shareholders.

Title slide 43: Q&A

Ladies and gentlemen, that concludes our presentation this morning, so I will now open the session to questions. I believe that change is good and, as you know, we have a new Chief Executive in South Africa, Ralph Mupita, and I want to make sure that we give him an opportunity to introduce himself to all of you in London, in Johannesburg. So, for a change I'm going to start the question session from Johannesburg. We'll then come to London, we'll then do the phones and after that to the webcast. As always, please wait for a microphone and state your name and company before you ask your question. So Ralph, I can see you on the screen, I hope you've all been able to hear that loud and clearly. Over to you for our first questions.

RALPH MUPITA: Thank you Julian. We have got several questions here. We'll start off with Michael Christelis.

MICHAEL CHRISTELIS, UBS: Can you elaborate a little bit on the gearing of the platform's earnings to scale. You know, if I'm not mistaken we're now at a point where – in the past you've suggested £20 billion is the level at which the platform itself turns profitable – I'm just trying to get an understanding of how quickly the profits can grow there, based on the development of Assets under Management.

JULIAN ROBERTS: Peter, do you want to take that? We have Peter Mann here, our guru on the UK business.

PETER MANN: Good morning ladies and gentlemen. Good morning Ralph and people in Jo'burg. There's no direct correlation, I don't think, when the platform breaks even and the degree to which

the profits then flow, depending on the flows that come in thereafter. I think there are three factors that affect it.

First of all, we always said £20 million was about the amount at which it would break even and generate a profit; that's proven to be correct. The second thing is; we have to accept that there are downward pressures on the margin in a post-RDR environment. So that profitability, currently, is based on the current profit metric assumptions. Thirdly; we have to accept that as time goes on, we will use the platform increasingly as the engine, as the enabler to generate other forms of investment and put other forms of investment on there, which in themselves will generate significant profit for the Group. So I don't think there's a direct answer to the question. It is not a linear motion, or linear interpretation, it's as much what you do with what you've got and we are clearly in a very strong position in that regard.

JULIAN ROBERTS: Thank you very much. As we said strategically, when we were talking through, the most important thing and the focus of everybody in the platform space at the moment is to wait for the final rules on RDR, get compliance, and then we have plans really to broaden out what we've got and move that business forward.

LARISSA VAN DEVENTER, Deutsche Securities: Actually two items that, Julian, you touched on. Ralph, if you can please elaborate. He mentioned the budget of last week and the implication that may have on pension savings; if you can comment on the opportunities that you see from the South African market, and then he also mentioned Nigeria but didn't go in to a lot of detail. You've announced your intent to go there. Can you comment on the timeline, the products, and progress made on that?

RALPH MUPITA: I think, if I start with the question on the budget, I think you've got to think about the budget in several layers, Larissa. The first is, it's clear that for the Affluent market with CGT and the introduction, at the level, the increases in dividend withholding tax that, in the hands of the investor, you know there is obviously an impact on returns. So I think that is really clear and obvious, but I think the more important outcome from the budget speech was, the sense that, the introduction of taxes and savings, I think for the Mass Market there will be opportunities there. There's encouragement of South Africans to save, so that I think will be an opportunity for us. The detail is still to come from the National Treasury and I think we'll see the detail in the second quarter.

In terms of Nigeria, we have said that we're in the process of finalising that transaction which is with Oceanic Life. It is through a joint venture with Ecobank. We will have 70% ownership of that particular business and, as Julian has alluded to, the distribution that Ecobank now has in Nigeria provides it with the largest footprint from a distribution point of view. So initially, we would obviously be looking at the very simple delivery of Credit Life, Group Life Assurance products through that channel but ultimately our view is, we'll be leveraging the Mass Foundation Cluster expertise that we have in South Africa and looking at that opportunity in Nigeria.

BRIAN MUSHONGA, Credit Suisse: I've got three questions. The first relates to the dividends and the level of dividend cover. You've given a long term target of 2.5. In the recent past, your dividend

cover has been much higher. Seeing as you simplified your portfolio, de-risked the balance sheet, don't really have a mandate for massive growth outside of Africa, would it be reasonable to assume that you could undershoot the 2.5 times cover in the short-term, to go as low as 2? That's the first question.

The second, I suppose, relates to the slide you showed regarding the Skandia acquisition and subsequent sale of Nordic. In order to crystallize the sort of MCEV number, if someone did make an offer round about at the MCEV level of the rest of the former Skandia businesses, would it be something you'd consider as a way of further simplifying, I suppose, the portfolio?

And the final question, I suppose, relates back to the platform. Peter Mann's answer seemed to indicate, sort of, further investment in the platform. Would that be a correct interpretation of what he said in commentary on the results?

JULIAN ROBERTS: Do you want to deal with the dividend, Philip?

PHILIP BROADLEY: Yes. I'm happy to do that. The dividend cover is set as a ratio of AOP. There are, of course, other items that affect the profitability in total and therefore the profit that ends up getting credited to distributable reserves. And distributable reserves is a rather quaint UK convention, but you do need to have them to be able to pay a dividend; so that, if you like, degree of perhaps apparent prudence built in to a 2.5 times cover is really around making sure that, if you like, through a cycle, through longer term, we continue to build up sufficient earnings in the form of distributable reserves, out of which the dividend can be paid. So, I suppose I welcome the confidence implied in the question that earnings will grow in a stable way, enabling us to move beyond the 2.5 times cover. But I think we need to, we as a company, the sector more widely, needs to navigate its way to a more stable macro economic climate before we would, I would certainly, be comfortable recommending to the Board that we relax that cover ratio. So you've seen the dividend over this year, in terms of cash returns to shareholders that we are recommending to shareholders. You've seen the comment about a progressive dividend policy, so I think you can see something about the direction of travel but let's get to the 2.5 times station first before we think where we're going to go next.

JULIAN ROBERTS: I think the second point on sales; I think any management and any Board that says nothing is for sale or there are some of its businesses that they would never ever sell, is not acting in the correct interest of shareholders; so I think, any businesses that you've got in the Group, if somebody comes along and makes you a knock-out offer and you believe that is a better value for shareholders than you developing that business yourself, I think the answer is quite straightforward and that doesn't matter what business it is in the Group and how important it is. So, that is my general answer to that question.

Thirdly, I think yes, it is quite clear. We have in the UK platform the largest platform, but in our minds it is still too small. We want that business to be bigger; we want that business to make a sizeable profit contribution moving forward. We have significant IFAs signed up. We have significant customers who have our products and therefore again, as I said, over time we will look to expand and satisfy our customers' needs by broadening out our offerings.

A lot more to say in a future time moving forward but we have big ambitions. We think we have got the right conduit in the platform and we would expect to grow that business moving forward.

David Danilowitz, Nedbank Capital: To touch on asset management, looking at both the US and in Emerging Markets. Starting off with the US, obviously you've reduced your goodwill on that business. I notice also you've moved the seed gains from the US Asset Management to the centre. I wonder if you could touch on whether you put a capitalised value on that seed gain in the future, or an expected gain on that, how material that could be and if not, you know, do you think there's room for further downgrades to that goodwill down the line?

I also notice you talk about, well you've got, I think, a twelve million Pound restructure charge, but expectations of further investment in the US Asset Management Business. Could you just touch on what that might involve going forward?

Finally, just coming to South Africa, or rather the Emerging Markets Asset Management business; I noticed the valuation picked up quite a bit more than I was expecting. I haven't got through the full release, so I might have missed on some restatements to some degree, but could you touch on why that would have moved up; the Rand currency, which I imagine is the biggest portion of that weakened over the year, and yet that valuation kicked up quite a bit? Thank you.

JULIAN ROBERTS: Do you want to deal with that Philip?

PHILIP BROADLEY: I might have to come back to the last question because I was busy thinking about the answers to the first one.

So far as goodwill is concerned, the goodwill calculation is done according to the UK accounting standard, sorry, the international accounting standard, I should say; it's not a proxy for valuation which I think is quite commonly misunderstood and perhaps understandably. So the goodwill charge follows from a mechanical process that we apply each year and that process looks at the present value of the expected cash flows arising from US Asset Management, as a whole, so it's really the cash flows from the boutiques. As I commented in my remarks, what we've basically done is taken a view that the Assets under Management, on which we earn fees, will grow at a lower level than we have assumed in the past because we are expecting, or at the time we did the impairment exercise, we were expecting US GDP to be lower than trend. It's interesting that pretty much, since we completed that exercise, US economic indicators have generally been rather positive, but there you are, that's how the exercise is done and that is what gives rise to the goodwill impairment; so the seed gains are not a factor in it.

Do we capitalise them? I don't think we do. It is, I suppose, one of the functions of being the owner of US Asset Management and the affiliates that we do provide seed capital to them. We do expect that to be an income generating activity ultimately for shareholders, but the profile is in terms of when the gains come, varies, and it's not something, I think, you would bank on a constant and consistent return.

There was a question about restructuring which I think links to what you were talking about in terms of boutiques and areas – asset classes – that we might be interested in.

JULIAN ROBERTS: If I go back, yes, there is a 12 million restructure charge; that was part of the exit from Dwight, that is part of Mutual Capital exit. You know, our plans are quite clearly to change the portfolio, improve the portfolio and grow the business. There's nothing particularly to talk about because we're still making sure the businesses fit before we go in to the growth area, but we haven't finished in the restructuring of what we're looking to do in US Asset Management yet.

PHILIP BROADLEY: And then the third question was OMIGSA valuation. It's both the value that attaches to OMSFIN and it's also including the businesses in the Rest of Africa that we're consolidating for the first time, as I mentioned.

JULIAN ROBERTS: Okay, let's turn to London.

GREIG PATTERSON, KBW: Just a quick confirmation and three questions. Am I correct in what I heard that you will remove the scrip dividend going forward?

PHILLIP BROADLEY: No, I said there's no scrip for the special and there's no scrip for the 2011 final. I didn't say it's gone thereafter. We haven't made the decision.

JULIAN ROBERTS: While the consolidation of shares is taking place, there's no scrip.

GREIG PATTERSON: Just for my forecast, should I be assuming a scrip or not?

PHILIP BROADLEY: That will be something you will have to judge. I don't know, so therefore…

JULIAN ROBERTS: We haven't made any decision.

GREIG PATTERSON: Right then, three quick questions. One is; I see you've taken credit for, or weakened the UK persistency assumptions and that on rebates. Do you not think that's a little bit imprudent given the RDR pressures and the platform pressures on those particular two metrics? I was wondering what your thinking was, why you suddenly removed the prudence when that's a key risk area.

The second question is, I noticed on the US, you said you improved your performance relative to benchmark. But I was wondering for South African Asset Management and US Asset Management, whether you've moved back in to the top quartile on average for your funds or are you still out of that quartile?

The third question, just on your comment about US Asset Management and strategy; if I heard you correctly Julian, you mentioned that you thought there was an opportunity to roll out some emerging market funds in US Asset Management. If my memory serves me correct, seeing I've been covering stock for fifteen years I think, that was tried before and it failed, so why do you think now you can implement that when previously they failed?

JULIAN ROBERTS: Let me deal with that one first, Greig. What interestingly I was saying is; we have a number of affiliates who are growing, and quite considerably growing, the proportion of their assets which is in emerging markets. So US investors want more emerging market exposure and our affiliates have responded to it; that's the point that I was making on that.

If you talk about the investment performance, generally in the US, the investment performance has improved but we're not in to top quartile yet, but we are travelling in the right direction.

Do you want to comment on UK persistency Philip?

GREIG PATTERSON: (off mic) … and in top quartile South Africa, you fell out of that as well.

JULIAN ROBERTS: I don't know the answer to that. Paul Hanratty, you haven't said anything while you've been here. Do you want to answer that question?

PAUL HANRATTY: The answer in South Africa, of course, is it depends on which asset class you're talking about. I think our core equity performance is very much around the median, not top quartile. But we do have some funds and some asset classes where we are in the top quartile.

PHILIP BROADLEY: As far as the assumptions are concerned in the UK, I'd separate the answer in to two parts. We have been taking or using an assumption in the UK that is more prudent than best estimate. It's actually not strictly in accordance with the MCEV principles. So, what we have done this year is to adjust that to best estimate and that is, if you like, a decision based around what the MCEV principles say, rather than a view about the UK market itself.

So far as the assumptions for persistency and rebate levels are concerned, those assumptions have proven themselves to be prudent over the last couple of years, so the surrenders or run-off of unit-linked business, thus far, has been slower than we have anticipated and we have earned generally a higher level of rebate than we've assumed. So the trend in variance generally has been favourable. We've set those assumptions on the basis that there will be higher levels of surrenders in the future than we've seen currently as an impact of RDR; we will have to see how those run through. But the decision to set the assumptions in Wealth Management on the basis of "best estimate", is driven by simply following the MCEV principles to the letter.

OLIVER STEEL, Deutsche Bank: Can I just follow up on the question about the dividend. I was trying to look up to see what the distributable reserves actually were but I couldn't find it in the pack. So could you tell us what are the distributable reserves now and what sort of coverage of dividend do you want, bearing in mind that, I rather agree, I mean surely the risks surrounding those have been reducing?

PHILIP BROADLEY: I can't tell you what the level of distributable reserves is at the moment. Iain might be able to find it by the time I answer the question but I'm not sure we'll have much more of a very profitable discussion on dividend policy going much further. I can only tell you what the Board has decided and I've really tried to address that already. The policy is to move to a 2.5 times cover over a period of time, as it is prudent to do so. There's been no discussion at the Board about going beyond that at any point, so I don't think we can really say a great deal more that would be helpful.

JON HOCKING, Morgan Stanley: I've got three questions, if I may.

Firstly, on Africa. I think previously you'd given some idea of what the target was for Africa as a proportion of the South African business. Have you increased the ambition though, given that the

Nordic business has gone – it seems that there's far more focus on this; could you give us some idea of what proportion we can expect Africa to be of the South African business, within say five years?

And then the second, two questions on the UK. Peter mentioned margin pressure. In the past you've talked about sort of 50 bps of revenue, 40 bps of expenses – can you give some update of where you think that 50 bps can move in the near-term? And then finally, I was wondering what Peter's expectations are for the platform paper when it comes out at some point in the future. Thank you.

JULIAN ROBERTS: I'll ask Peter to answer the last two. Look, we haven't set targets for Africa and the proportion of Africa we want. Clearly what we have said and the steer that I'm giving today is; we have had a change in our view over our exposure to Africa when, apart from the subsidiaries that the Group has owned for many years, we've been hesitant to expand in to Africa. So we're starting on this journey. I think probably you should look in ten years time, looking back to see what we've got.

It is likely that these are relatively small businesses that we will have and therefore the proportion, you shouldn't look to new ones to be any significant portion. We do believe, though, that they will grow fast when we get in the right countries, given what I've said is the two routes that we've got moving forward. Peter.

PETER MANN: Two things, I think, Jon. One, you wanted some clarification on our view on where the 50:40 margin or basis point margin might go to. General statement of principle, it is our belief that margins, pure margins on the platform, as you unbundle, will go down. It is not our intention to create the downward trend. It is our intention to monitor it and follow it. Only two significant groups have come out with their stated intentions and they are precisely that, for that market place for next year. We believe one to be too aggressive and one to be in the region of. Our current average earnings is a combination of the rebate and the single investor charge and, as Philip said, that generated a better than expected return last year. It is not our intention, with the single platform charge that we apply at post RDR and the additional revenues we will generate from the Group in putting products and services on the platform which will generate additional revenue, to significantly reduce our margins below the current level, single digit basis points.

The platform paper question is that, with the publication last week of the legacy proposals, which were interesting, one now only has one element of the platform debate yet to be resolved, and that is the position with regards to unit rebates versus cash rebates. As I've said before, in our building of an advisor charge and unbundling charge product for 2012, we have the capability to, and continue to have the capability to, deal with both. Our expressed preference has always been for unit rebates and if the FSA are as intransigent on the subject of rebates as they appear to have been on the subject of legacy, then I suspect we will win.

TOBY LANGLEY, Barclays Capital: I've got three questions. A quick one to begin with on goodwill. You've mentioned that you've reduced the growth rate you're assuming in the US Asset Management business, I wondered if you could share what level you're now assuming for that business?

Then two further questions for Peter on the platforms business. You mentioned that you feel quite comfortable about Skandia's position and I'm just wondering if you can talk about the barriers to entry that you feel Skandia has. We're hearing now that start-up operations have relatively low costs in terms of buying an off the-shelf platform proposition and so therefore maybe those barriers aren't maybe as high as they once were.

Secondly, you appear to be talking up the D-to-C proposition for the Skandia platform and I'm wondering how that fits with your 90% IFA-distributed business that you have today. So, if you could talk a bit more about your ambitions there and whether you see the risk of cannibalisation occurring.

PHILIP BROADLEY: On goodwill, the growth assumption from 6% to 4% but as I mentioned earlier, do not assume that doing the annual review under the accounting standard necessarily is a close correlation to our view of the value of the business.

JULIAN ROBERTS: Peter, aren't you glad you're here today?

PETER MANN: Yes. I'm delighted. Does it show? On barriers to entry –the principle barrier to entry for anybody to get scale or substance is the fact that we have both of those things. So we have the relationships with nine thousand IFAs; it's typically very difficult to disturb those relationships because we actually don't do very much wrong. So it's quite difficult to disturb our market share.

The principle new entrants are people who are trying to do something different. So if you look at the last two new entrants to the market place of any scale or substance, they would probably be Pershing and SEI. They're in a very different place with a very different model and they're dependent on the IFA doing a lot before they get to, what is effectively, a custodian service rather than a wrap on a platform. We haven't seen any wrap platform, true wrap platform, businesses of any scale and substance launched in the last two years and I don't expect to see any more and I certainly don't feel threatened by any that may come in.

The second question you asked is in relation to D-to-C and I want to clarify, quite clearly, what we've said in terms of our D-to-C intentions. The decision to use advice now was a pretty binary decision. It was either you took advice or you didn't and it was binary to that degree. There's an increasing amount of the population who are becoming ”and” people – people who take advice but also purchase assets directly. And also, when adviser charging comes in, and when one understands the complexity of advisor charging, there are simply some transactions that advisors will not be able to afford to do in the future. It will not be economically viable for them to execute, let's say, a single ISA. So what we're doing is we're building a connect, and that is the name of the project, between the advisor, the customer and our business, such that it's a linear relationship rather than triangular relationship and that's where we intend to start with this particular project and I was quite clear, I hope, in my press statement to say that we are going to take the steps along with the advisor, rather than directly with the consumer at outset.

JULIAN ROBERTS: Thank you Peter. We've got a couple of calls on the telephone. We've got four calls I think we probably have the time, as time is pressing on, to take two. Could we have the first call?

MARIUS STRYDOM, Bank of America, Merrill Lynch: Thank you very much. I also have a question with regard to the platform business. You've mentioned numerous times that for the platform really to generate strong growth and returns, additional product needs to be pushed through the platform. At the moment there are obviously a number of large UK insurers and others that have these products to push through the platform, but they don't necessarily have the platform. Would you agree that there's a case to be made for the fact that the platform business right now may be more valuable to an external party than to yourselves and that that could create an opportunity for Old Mutual.

JULIAN ROBERTS: Funnily enough I thought your question was going to go a different way and I thought – and then it suddenly turned at the last minute, Marius. What I think, what we are looking at as well and need to look at, is whether those people that don't have the distribution but have the manufacturing capability and have the capital, whether we would be willing to offer their products through the platform, and I think that could, in due course, be a useful route to us to move the business forward.

As I said before, we are committed; we think we're in a very good space with our business. We are a long way off from being there and we are determined that we will make a real success of the business in the UK.

ANDREW MCNULTY, Andrew McNulty of Absa Capital: I've got a question just in connection with your interesting slide on the discussion on your expanding footprint in to Africa. You indicated there that you're going to basically build off three strong brands, one of them being Nedbank. Can we take that as confirmation that Nedbank is a core, an important, asset and business for you in terms of your new strategy in to Africa?

JULIAN ROBERTS: I think that I will turn round Andrew and make two comments. A bank that produces a 20% earnings growth, is number one in South Africa(correction : number one in terms of growth), is an important and valued asset to our Group and the second point I would turn round and say is we're not, you are right, we are not just talking about growth in Africa through the insurance business; our Group strategy is to leverage a capability across all of our businesses, and if what you were really trying to do is to get me to talk about the long-term, what businesses are in and out of the Group, I'm afraid I'm not going there today.

Right. Let's come back to the room here. I think we've probably got time for two or three more questions, then we'll have to wrap up.

COLIN SIMPSON, Goldman Sachs: There was second half slow down in Mass Foundation profit. Could you just clarify to what extent that was exams or competition heating up in that segment. Also could you talk a little bit about Old Mutual Finance please? This is still in its infancy and making not an insignificant amount of money. What are the short-term and long-term plans for this, especially since you've said that banking is not in your DNA?

JULIAN ROBERTS: Well Ralph has been very quiet in Johannesburg for a while. I hope you heard the questions Ralph. Do you want to take them, just to see if you're still awake?

RALPH MUPITA: Julian, I'm still awake here. I think you'll see in our sales trend for Mass Foundation cluster we're 48, 49% up in the first half and full year we ended up at 28%. The real reason is 2010 first half had a much slower start to the year but we ended off in a place where we think was good, in fact, excellent, growth at 28%. We have been investing a lot of time to take our advisors through the exams, RE exams, and we feel confident notwithstanding the extension of the exams that we will get our advisors through the exams. And on the point around Old Mutual Finance, we equity account for Mutual Finance and it's picked up in overall profitability of Mass Foundation cluster and you'll see that the profit growth there was very good.

We have continued to expand our branches and as at the end of last year, we had over a hundred and fifty branches and to be clear, those branches, we are looking at a different model from banking where we're integrating insurance products, lending and client servicing in those branches, and they generate about 10% of the Mass Foundation cluster sales. So we're growing that business but we're growing it moderately. When you look at the approval rates for loans, they were very low and below the traditional banking peer groups, they were in their early- to mid 30s but the focus is really about providing integrated financial solutions for our Mass customers.

JULIAN ROBERTS: Thank you Ralph. The last question in the room; we'll leave it to you, Mr Pearce.

JAMES PEARCE, UBS: A couple of things. What do you think the effect would be on the UK book if the government did reduce tax relief from £50 to £30 thousand a year, both front and back books, and second, could you say what the pro forma FGD cover would be post the special dividend and what targets, how do you expect it to develop going forwards please?

PETER MANN: In terms of tax relief reductions, I presume you're referring to principally pensions business here. The vast majority – by vast majority, I would say over 90% - of the pensions business that we write in the UK is single premiums and it's typically consolidated assets from past pension plans coming together in to a single environment so the customer can get the view. Clearly the relief has already been given on those so the impact would be minimal.

PHILIP BROADLEY: The FGD goes up on completion by £1.5 billion Pounds. It then goes down again when the special dividend is paid by a billion. What happens beyond that will be a function of exactly what debt reduction activities we undertake, and as we haven't decided on those, I can't forecast beyond it. But I will observe that two years ago, the FGD surplus was, if I recall correctly, about a billion. It's now two. We no longer have the credit risk of US Life; we no longer have the operational risk, which was the largest element for which we held capital, against Nordic; and we no longer have a significant impact on the FGD calculation driven by 5th anniversary top-ups because we know what that is. So the amount of, the number of risks, against which the FGD capital is held, has significantly decreased so I'm very comfortable with the current level of FGD surplus.

JULIAN ROBERTS: So I'm afraid our time has run out. I think my concluding remarks, I would say, is you know we think 2012 will continue to be a fairly tough period of time. You know, you see China slowing down a bit. The world economy is tough. I hope what you've heard us say is two things – really, we are confident in the businesses that we've got, in their positioning in their markets, and there is a determination from the management team to keep on improving the businesses that

we've got, to make sure that we hit the targets that we've set ourselves, so that we again continue to improve the value for our customers and for our shareholders.

Thank you very much, everyone, for joining us.

END OF RECORDING