INTERIMS 2016 **TRANSCRIPT**

11 August 2016

Bruce Hemphill: Good morning, and welcome to everyone here in the room with us in London and to those in Jo'burg as well as everyone on the phones or watching on the webcast. In Jo'burg we've got Ralph Mupita hosting, and it's pretty important that the connection is working so let's check that, Ralph. Can you hear us?

Ralph Mupita: Bruce, we can hear you loud and clear, good morning.

Bruce Hemphill: That's a relief. Great. Okay.

Bruce Hemphill: Okay. Ingrid Johnson and Paul Feeney are here with me on the stage and we've also got a number of senior executives in the audience both here and in Johannesburg.

I think there are two key messages that I want to get across about our first half. Firstly, we've maintained momentum in the businesses. And secondly, that we've made good progress on our managed separation strategy. And in the presentation this morning I'm going to start with managed separation and then I'll give an overview of first half performance plus comments on Nedbank and OM Asset Management, both of which, as you know, published their results in the last couple of weeks. I'm then going to ask Ralph and Paul Feeney to give more detail directly to you about their respective businesses. Ingrid will take you through the overall financials and then I'll wrap up with a few comments about the prospects and then we'll have questions.

So let me start by reminding you all about where we started this process in March and going back to the strategy, and I think we start from a position in which we have four strong businesses with excellent growth prospects in what we believe are attractive markets, but they sit in a group structure that traps value and our desired end state is one in which these businesses are independent, owned directly by shareholders, who understand and value them correctly. They'll be well capitalised delivering enhanced performance relative to peers and building sustainable long-term value. To get to that end state we've embarked on what we're calling a three-year strategy of managed separation. And this is a reminder of why we believe that managed

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separation is the optimal route to the creation of long-term value and how we see that value being unlocked.

We have five building blocks of positive value, four businesses and Central Assets, as shown on the left-hand side of the graph. We want to increase the size of those blocks which we believe will come from delivery of enhanced business performance and a valuation re-rating of the businesses. And then on the right-hand side of the graph there are blocks of negative value. And we want to decrease the size of those blocks so we're taking out head office costs, materially reducing debt and outside of the group structure our businesses will, we believe, lose the drag of a conglomerate discount. And there are fundamentally three things we have to do to give effect to the managed separation.

We have to ensure our businesses are ready for their independent futures; we have to execute a number of transactions; and we have to manage a phased winding down of the plc head office. And we have to do all of this in a way that balances time, risk value and cost, whilst navigating through what are volatile markets, and continuing to engage with all of our stakeholders and our technical advisors.

I think we've got great momentum behind these changes. I think there's real energy in the businesses. And there's a drive and enthusiasm amongst the management teams as they've embraced the strategy. And we still expect to be materially complete by the end of 2018.

So let me talk you through some progress so far.

We're now deeply into the process of driving business readiness. This means different things for each of the businesses because today they're at different stages of readiness. For example, OMAM and Nedbank, as you know are already listed companies, and so they're more advanced in some respects that Old Mutual Wealth and OMEM. We have now created project teams for each individual business including both local and head office resources. And those teams are charged with ensuring that all the many aspects of business readiness are addressed at an appropriate pace. We're clarifying and tightening the strategies of the businesses and I was delighted that two days ago we were able to announce the sale of our business in Italy for €278 million in cash which will allow Old Mutual Wealth to focus fully on its core UK and cross-border markets.

We're revising board structures and have effected some management change including reshaping the leadership team in Old Mutual Wealth.

We have to make sure that each independent business has the right structure, the right governance, the right board and the right management.

We're well advanced with identifying activities that need to be transitioned from head office into the businesses and we've begun detailed transition planning.

To be ready for so-called independence, each business will need the right operating model and capabilities and will be able to fulfil its listed end state

obligations and stand alone without the support previously provided by the group head office.

Operational performance is a vital part of business readiness as this ultimately will drive value above peer returns and maximise long-term value creation on the separation and to that end we're working with the businesses to determine the key value drivers appropriate to each of them and to establish all the appropriate metrics. We're going to be setting stretching targets which will tie into revised management compensation arrangements, and you'll hear an update on the businesses at the capital markets event which we're planning to host in London on 11 October. Let me just be clear about that. That's not the big reveal. What we want to do is give people great exposure to the management teams and the underlying businesses. So I see it as a teach-in into the underlying businesses. I think it's also important shareholders outside of South Africa get to understand the value of an asset such as Nedbank in more detail.

Now the exact nature and timing of the transactions we're going to have to execute are going to depend on a number of factors, most specifically business readiness and stakeholder consent processes, but this is our current view of what those transactions are likely to be.

So we intend to continue the phased reduction of our stake in OMAM. We envisage creating two separate listed entities which are listed on both the London and Johannesburg stock exchanges. One will comprise principally the operations of Old Mutual Wealth and the likely mechanism for achieving this is a demerger. The second entity will consist principally of the operations of Old Mutual Emerging Markets and this is likely to be achieved through the creation of a new South African holding company. We then anticipate an orderly distribution of a significant portion of our current shareholding in Nedbank to shareholders of the new South African holding company. The holding company will retain an appropriate minority stake, the exact level of which will be determined jointly between Old Mutual and Nedbank. We also intend to make a material reduction in holding company debt which we'll fund through asset realisations and use of surplus plc cash.

Turning to the plc head office, there are essentially two main aspects to the phased wind down. Firstly, those that are people and task related, and secondly, a number of financial arrangements that need to be resolved and unwound.

So if you just take a step back and think about what we've had to do. We've taken what was essentially a head office designed to support an integrated global financial services group and we've had to change it to something that supports a holding company. And there are now two distinct functions for the head office. And we have to give effect to the managed separation, and we have to continue to run the business fulfilling the existing plc's ongoing regulatory, debt and shareholder obligations. We're now in the final stages of restructuring the head office along these lines with existing teams and staff allocated appropriately. We've also brought in some specialists, for example, with strong change management experience to supplement our capabilities through this process. To date we've cut our headcount by 15% and we've

identified further roles that can be removed in the short-term so that by the end of this year we anticipate that we will have reduced headcount by around half. Further attrition will take place as we progress though the separation and ultimately the plc head office in its current form will no longer exist.

Now, turning to the financial side of the equation, we're taking steps to optimise the certainty and timing of cash receipts and reduce contingent liabilities, for example, we've agreed with OMAM an acceleration and subsequent termination of the deferred tax asset deed and seed capital management agreement which will bring forward the receipt of plc cash of around $270 to $280 million between 2016 and 2018.

So, there's a lot going on. We're very clear on the task at hand and there's a well-defined list of things that we have to do. At this stage there's a lot of very, what I'd call, unglamorous, roll up your sleeves sort of preparation work that is really critical to the success of this project and I think we've made a huge amount of progress with that work. Effecting managed separation requires cash and investment and hence we've adopted a sensible and prudent capital management policy and are using the flexibility afforded to us by that policy to manage cash and capital conservatively, particularly at the early point in the process. As you'll see when we announce the second interim dividend with our full year results, that the total dividend for 2016 likely to be in the mid to upper end of our target coverage. As we explained in March shareholders will take some strain in the short-term in the interests of greater value in the future. We believe from our engagement with our shareholders that this is what they want us to do.

At this point I'm going to move onto our first half results.

It was a challenging first half; Volatile markets and currencies putting pressure on earnings, slowing economic growth putting pressure on consumers and political uncertainty affecting all of our key markets. But notwithstanding all of this, one thing remained constant and that is that it's clear that the underlying franchises and businesses are fundamentally strong. They have good franchises in attractive markets and great prospects for future growth. And against an uncertain background for customers we continue to be trusted by them to look after their money with attractive products and solutions that meet their needs, and we can see that reflected in our first half performance.

So top line momentum was good, gross sales were up by 10% in constant currency and net client cash flows were £3.5 billion positive excluding Rogge. Overall AOP was down on a very strong first half of 2015 but pretty much matched our expectations and previous guidance being depressed by a difficult macro and several one-off business specific costs as we flagged in our AGM statement. In line with the capital management policy, the first interim dividend for 2016 has been derived arithmetically based on dividend cover of three times AOP earnings.

Now before I hand over to Ralph and then Paul, let me say a few words about the performance of Nedbank and OMAM, both which announced recently.

Nedbank delivered headline earnings up 2% overall and its South African operations have been incredibly strong with headline earnings up 20% in a very difficult macro environment, but in the rest of Africa performance was impacted by losses reported by ETI in the fourth quarter of 2015, primarily relating to increased impairments following a review by ETI's new CEO of processes and portfolios. Remember that Nedbank own a 22% stake in ETI, which is their strategic partner in Central and West Africa, and it's accounted for one quarter in arrears, so these losses impacted Nedbank's associate income in Q1 2016. The bank continued to grow both net interest income and non-interest revenue, impairments were down on the prior year, and were below the midpoint of the bank's through the cycle target range. On a like for like basis defaulted advances were lower than at June last year. The credit loss ratio as a result also improved, provisioning is prudent and the balance sheet is well capitalised with the common equity Tier 1 ratio improving to 11.6% and well within the Basle 3 internal target range. I actually think these are great results delivered in the face of pretty tough macro headwinds and they demonstrate, I think, the continued strength of this business and its management team. I believe its strategy is working - predominantly focused on South Africa with expansion in other African markets via the Nedbank franchises in Southern and East Africa and via its strategic relationship with ETI in Central and West Africa.

In the US OMAM generated very strong cash inflows in the first quarter from several large mandates; second quarter inflows were lower, whilst outflows were steady and net flows for the first half overall were $0.5 billion negative including some $2.3 billion of hard asset realisations. The annualised revenue impact of flows in the year to date remains positive. Average assets under management in the first half were lower than the prior year with a consequent impact on revenue based fees and AOP. The reduction in profit also reflects exceptional performance fees earned in the first half of 2015 and not repeated in the first half of 2016. The business remains in good health but I believe there is more to do. It is focused on improving performance, building the flow pipeline and expanding its capabilities into other asset classes. I think its strategy is tight and clear now and the acquisition of Landmark, which it funded through the US debt markets, I believe is bang on strategy. And I think that all of this will ensure that OMAM continues to strengthen its position for long-term sustainable growth.

And at this point I'm going to take a break and let the team do some talking and I'm going to start by handing over to Ralph in Jo'burg, so Ralph if you can hear me, over to you.

Ralph Mupita: Thanks Bruce, and good morning to everybody. What I'd like to do in the next few minutes is to run through some of the key features of our half year results in Emerging Markets, give you an update on the progress of recent developments outside of South Africa, as well as my take on key issues for the remainder of the year.

But let me start with a few comments around the macro background which has been quite challenging in most of our markets with the notable exception

of India were economic growth remains strong. Equity, currency, commodity and bond markets have been volatile during the period and these have impacted our consumer and consumer behaviour across the majority of our operations. But despite this I'm pleased that the positive momentum we've seen in 2015 has continued into the first half of 2016.

And now let's take a look at some more detail of our financial delivery. First, life and savings. We've delivered an all-round solid performance with covered sales increasing by 25%, supported by exceptional volumes in our Corporate business, as you can see in the middle of the chart. Sales of our group life assurance and smoothed bonus pre-retirement products were particularly strong. Our Mass Foundation business continued to benefit from improved advisor productivity driving sales growth. And in the Retail Affluent business we've seen customers preferring products with protection and smoothing given market volatility and uncertainty.

In our Indian joint venture sales were strong benefiting from both advisor productivity improvements as well as a broader bank distribution resulting from the merger between ING Vysya and Kotak Bank, our partner in India.

Non-covered sales were 13% down, partly due to the inclusion of two large inflows in the first half of last year totalling R13 billion.

I'll skip over gross sales and move straight to gross written premiums which were up 30% and 9% if you exclude UAP. This is primarily as a result of improved sales in the Personal and Risk finance lines in Mutual and Federal. Our direct distribution business, which includes iWYZE, delivered strong premium growth of 18% during the first half. And we're pleased with operational progress to date and the strategic contribution of the new management team that we have in place in that business.

So great top line with decent inflows impacted by a slight change in business mix. But clearly, as you can see on the table, net client cash flow was disappointing. In the Retail Affluent business, we've seen partial and full disinvestments indicative of customers under financial strain. In our Corporate business we've seen an increase in claims, specifically disability income benefits, which is typical in a weak macro environment. In addition, a more favourable tax dispensation to disability income benefits that came through in recent times further impacted our claims. We are addressing the flows in Retail Affluent and the claims pattern in the Corporate business and driving management actions towards improving their net client cash flow.

Turning to the next slide; profit, cash and returns. Adjusted operating profit was down 5% on an extremely strong comparator. We're down 2% if we take out the effect of higher debt costs following the additional debt raised in the second half of last year. Profits were further impacted by higher claims, less favourable risk and persistency variances and our IT investment programme.

On the chart on the right-hand side of the screen we look at the profit outcomes for our business lines. Life and Savings profits were down 8% overall, but profit from our South Africa life business was broadly flat year on year. We had very positive risk and persistence experience variances in the first half of

last year in our South African businesses which didn't repeat in 2016. We also had higher new business strain that was partially offset by expense savings.

Our asset management profits were impacted by the reclassification of life wrapped unit trust margins in our life business during this first half. Excluding the impact of the reclassification, asset management profits were up 11%.

Banking and lending profits grew a pleasing 33% and our lending business in South Africa has made the appropriate adjustments related to the DTI interest rate caps.

Property and Casualty profits were down 32% mainly driven by an underwriting loss in the South African P&C business compared with our profit in the first half of last year. This was driven by a more challenging claims environment, particularly across the Commercial and Corporate and Niche business lines. Although large claims incidence has been in line with historical experience, it's the severity of the claims that has been the issue in the first half of the year. During the first half we suffered a number of weather and fire related catastrophe losses which exceeded our long-term historical average severity. Some of the losses were linked to the current economic climate, particularly the credit portfolio. Together these large claims contributed 82% of the negative underwriting result with our rest of Africa business making up the balance. And if you look at the weather conditions in key parts of South Africa over the last couple of weeks, I think we can anticipate a difficult claims environment in the second half of this year as well. But we remain focused on delivering our underwriting profits and margin targets that we've committed to in the market.

Moving further down the slide to free surplus. In the period we converted 74% of post-tax AOP to free surplus and remitted R2.7 billion to the plc. Our return on equity remained within our target range.

Just looking for a moment at MCEV, here you can see the strength of the life business which performed really well delivering quality growth and maintaining margins in a market where we're seeing margin pressures. MCEV operating earnings were 21% higher than the same period last year and if you look at the call out on the screen you can see that we experienced higher than expected returns. Experience variances were positive overall with expense and other profits being partly offset by adverse risk experience. Margins have been resilient despite an unfavourable mix of business swinging from risk towards savings. Although only marginally negative, persistency experience deteriorated compared to 2015 which is not unexpected given the pressure on the South African consumer

Finally, return on embedded value was up 250 basis points at a very satisfactory 14.8% driven by higher expected returns and a 28% increase in the value of new business. And overall our life business remains strong and very resilient.

Let me say a few words about our progress in East and West Africa. In East Africa our acquisition of UAP provides us with a business of scale and a platform for growth to deliver a full set of financial services to our customers. The softened market conditions since acquisition, particularly in investment

and property markets, a delay in the completion of key new property developments and conversion of some debt to equity means the ROE progression is lagging our Year 1 acquisition case. We do, however, have a strategy in execution that we believe will deliver an ROE within our target range of 20% plus within a five to seven-year time horizon that we communicated to the market last year. But given market conditions, execution will be tough in the near term.

In West Africa the macro remains challenging. We are taking a number of actions to leverage further the relationship we have with Ecobank. We have an enhanced cooperation agreement with them and are selling through the distribution network and cross-selling into their customer base. This is expected to drive premium growth for our insurance business and non-interest revenue for Ecobank.

We also remain bullish on the prospects of our alternative investment business in capturing the structural growth opportunities that we see in East and West Africa that will come from infrastructure, renewable energy and agricultural developments on the continent.

And so to summarise. In the first half of the year our life business delivered satisfactory results due to the breadth of our product range and the nature of our distribution with top line growth and margins maintained despite the tough macro environment in most of our markets. In South Africa we expect the pressure on the consumer will continue in the second half of the year and anticipate further developments around the Retail Distribution Review, Retirement Fund reforms and Twin Peak regulations. We have a well-diversified and resilient business that will enable us to navigate successfully through the times ahead and I'm excited by the momentum we're seeing in the business.

And finally we are making progress in preparation for separation and ensuring that our business remains strong and resilient as we get ready for the future. Back to you in London, Bruce.

Paul Feeney: Well thanks and good morning everyone. I'm going to talk about Old Mutual Wealth's first half operational and financial performance.

Here, in a very challenging market, the business has got good underlying momentum and we're making progress towards managed separation. Let me start though, as Ralph did, with a few words to set some context.

The first half was, without doubt, one of the toughest periods in the UK investment industry for many years. The Investment Association statistics show that overall net retail flows were negative in the first quarter. This is the worst first quarter for at least 20 years. And the second quarter was even worse. It's the first time, in fact, in over 30 years that the industry has suffered two consecutive quarters of net redemptions.

Markets were down for most of the period putting pressure on fee earning capacity. Bond yields remain at incredibly low levels. And there was a huge amount of uncertainty for the consumer, particularly in the run up to the Brexit

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referendum. And frankly, although markets have come back reasonably well following the referendum, investor confidence is going to take much longer to recover. In my view we've moved to a new normal. And that's something we need to think about and plan for going forward.

In this environment the companies that do well will be those which stayed close to their customers, have extensive market reach, and provide relevant products and solutions. We have all of these. And as a result against that background we've traded strongly. Gross sales were up by 16% with very strong flows into GEAR and Cirilium. Net client cash flow was up 39% at £3.2 billion. And funds under management grew by 7% in the first half. So that's all very positive. Our revenue margin also held up well dropping just two basis points year on year. And that's despite the changing mix away from legacy products and pressure on platform margins.

Our strategy is working. We're gaining real benefits from our vertically integrated model. We've generated good flows, as you can see from the stats on the slide. For example, £2.4 billion worth of vertical integration flows into OMGI, by which I mean flows via other part of Old Mutual Wealth. Our strong relationships and quality of our wealth solutions make a real difference here. We've been able to stay very close to the advisors who have equally been trying to stay very close to customers through this difficult period. We are multi-channel, by which I mean we use restricted, tied, open market, wholesale and a small degree of direct distribution. This gives us a number of ways of reaching our customers and it makes it easy for them to access the advice and solutions they need to help them through these turbulent times.

And we've got a broad range of products and solutions that are highly relevant to customer needs through this cycle. In particular our absolute return funds. In this period of uncertainty customers have flown to safety. In general, they've been avoiding equities, they've been avoiding property and credit, and typically they're holding more cash than they normally would. Commodities have also been seen as a safer haven. For example, we've had good flows into our gold and silver fund. Performance for this fund is up by 54% since its launch in March this year. Investment performance proved difficult for value oriented funds in the second quarter. In particular GEAR and UK Alpha. We've also restructured the absolute return government bond team and we continue to focus on the multi asset range.

Now, I should probably make the point that we don't expect our strong half one NCCF performance to repeat in the second half. And I remind you that half two last year was a particularly strong period for NCCF.

Turning to profit, which fell from half one 2015 to £104 million. Now, there are a lot of moving parts here, and we've been impacted by a number of specific issues. So let me unpack these a little.

I'll start with managed for value. Profit in the Heritage business is down significantly. The main reason for this is that we've taken a one-off £21 million charge as a result of our carefully considered decision to cap exit fees at 1% for pension customers who are over 55 and to simplify fee structures ahead of the expected regulatory deadline of March 2017. We were one of the first

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companies to make these changes. And we did so because it's the right thing to do for our customers. In the comparative half year last year managed for value profit also included £7 million from Switzerland which we've included in the heritage bar on the chart. As you'll recall we sold that business at the end of Q3 2015. And of course markets have clearly pressured revenues for a book that is in structural outflow.

In our growth businesses we've had a full six months' contribution from Quilter Cheviot compared with four months in half one 2015 and this added around £7 million to profit. This was offset by a £5 million payment of LTIPs in Intrinsic for successful business delivery as per the acquisition agreement. We also had a revenue impact of the FCA sunset clause and the removal of our minimum investor charge and drawdown charge on our platform. OMGI profit was down as a consequence of markets being down as well as our ongoing investment in that business. In addition to these specific issues, we've strengthened our leadership team as part of our business readiness preparations for managed separation. We've made some changes. We've enhanced our focus on operating and control functions. And there have been some associated costs. As you also know we are continuing to work with the FCA in their investigations following their thematic review.

Overall then, our growth businesses have performed very well in a market that on average is down 11% and in the context of a UK fund management industry that has seen the worst net outflows for 30 years.

Now, let me tell you where we are with the transformation programme. We are building the core back-end administration system. This covers workflow, client administration, products rules engine, regulatory requirements, and links into the 25 external systems which, amongst other things, are required to verify banking and fund valuations. Since March we have been focused on increasing risk mitigation and this is being worked through with our suppliers and project advisors. We are planning the testing processes in advance of the shift in focus in due course towards the development of the UK platform front-end system. As we told you in March we brought in KPMG to do a full independent review and they will continue to provide assurance through the programme. Our suppliers IFDS and DST are now going through a similar third party assurance process. And since March we've brought in Accenture as our programme delivery partner across the entirety of the programme. We've enhanced risk management, oversight and reporting across the entire project. And we're in advanced and constructive negotiations regarding the commercial contracts so that our partners bear a greater proportion of both the delivery risk and the financial risk.

Given that our existing platform is so functionally rich this was always going to be a challenging project. It's been a steep learning curve. We've appointed a new Chief Operating Officer, Steve Braudo, who joined us on 1st June and has taken accountability for the programme. Many of you will be familiar with Steve from his previous roles in the Standard Bank Group. Steve is overseeing the further assurance process and leading discussions with our suppliers. We'll give a fuller update on the programme at the plc capital markets event in October.

So let me finish with a few words of summary. We've traded well in the first half bucking the trend for the industry. Our underlying momentum is strong. Our gross sales and net client cash flows were strong in half one. Revenue margins are stable. But we now need to shift focus on driving the operational execution of our strategy. As we announced on Tuesday and Bruce mentioned just a moment ago we have agreed a sale of Old Mutual Wealth Italy allowing us to focus exclusively on our UK and international offshore markets. So we're preparing the business for separation. We've still got work to do. We have to get our shape right. We need to increase operating efficiency and deliver cash flow and profit progression. And we've still got to realise further benefits from the acquisitions we've made. As I said at the start, the industry has entered a new normal. It's hard to say when confidence will start to return. But through this we will continue to deliver relevant and attractive products and exceptional service to our customers. We are in a great position to build competitive advantage and deliver sustainable long-term growth in profits and in value. Thank you and now over to Ingrid.

Ingrid Johnson: Thank you Paul, and good morning to you all. In my presentation this morning I will cover the usual group profit and returns, conversion and uses of cash, capital and finally dividend. As well as covering our half one results for 2016, I would also like to talk a little bit about how we will be managing the financials as we proceed with the managed separation.

Let me begin with the profit and loss account. The sum of AOP from the core businesses stated before tax and non-controlling interests was £767 million down 21% on a reported basis and 9% in constant currency. This has been thoroughly explained by my colleagues and is detailed in our interim results statement.

Finance costs increased by £3 million due to the higher coupon £450 million debt issue which we undertook in November last year and was partly offset by the redemption of 374 million Eurobond also in November. I will come back to the cost of central activities in a few moments.

So total AOP pre-tax and NCI was £708 million. The reduction from half one 2015 includes £128 million due to adverse currency movements. We did, however, benefit by £18 million from unrealised foreign exchange gains on US dollars and unrealised fair value gains on seed investments as a result of the positive market movements and FX movements in the last few days of the half year. Tax of £181 million reflects an unchanged effective tax rate of 26% charged on lower AOP. And non-controlling interests of £145 million were lower than prior year reflecting lower AOP but a higher effective rate following the secondary sell down of OMEM shares in June 2015. Total AOP post-tax and non-controlling interests was £382 million. Earnings per share of 8p were down by 2.3p on the prior year of which 1.3p was due to currency.

Moving now below AOP to IFRS, post-tax IFRS profit attributable to equity holders of the parent was up by 9% to £284 million. This principally reflects a lower level of goodwill impairments than in the comparative period which

were mainly incurred in relation to the disposal of businesses in continental Europe by Old Mutual Wealth.

I now wish to go back to the £24 million cost of central activities that were shown on the P&L slide. Looking first at corporate costs. Gross costs totalled £42 million of which £12 million were recharged to the businesses and are recognised by them as operating costs. The recharges relate mostly to Old Mutual Wealth in respect of property costs and centrally sourced corporate insurances. Net plc costs of £30 million were up by £6 million on half one 2015. This includes £4 million reflecting earlier settlement of insurance premiums in the current year which is purely a timing issue and will not affect the full year.

Looking now at the other shareholder income and expenses, the main movement is the £18 million of unrealised currency and seed gains as I described on the previous slide. In half one 2016 we also incurred £3 million of costs associated with managed separation. This comprises £2 million of advisory costs and £1 million of restructuring costs, principally redundancy expenses connected with the reduction in roles at the plc head office. We would expect to see the transformation costs increase in the second half of the year as strategy execution picks up pace. Note that whereas we were incurring the costs of redundancy in the current year, the reduction of ongoing staff related expenses, an expected run rate saving of £10 million per annum will not come through until 2017.

Moving now onto cash, and looking at the conversion of business profits to the free surplus and cash at the plc. In total our businesses generated £375 million of free surplus equivalent to 88% of our share of AOP. Of this free surplus generated, £119 million was either deployed or retained by the businesses for organic and inorganic investment as well as capital strengthening. In total £256 million, equivalent to 68% of free surplus, was remitted to the plc.

In our Old Mutual Emerging Markets business the situation you can see is principally a timing issue and not all of the remittance is in relation to half one earnings.

For Old Mutual Wealth cash retained relates mainly to the spend on the UK platform transformation project which was £39 million post-tax. This should be seen as capital expenditure in nature, and therefore outside of AOP, but it clearly impacts the amount of cash available to remitted to the plc due to it being funded to date by operational free surplus.

Remittances and AOP shown here from Nedbank and OMAM reflect our share of their cash dividends paid in accordance with their declared dividend policy. As well as normal course payments received from OMAM in respect of their deferred tax asset.

It is important to understand that we are not stretching the businesses in terms of remittances. Going forward they will continue to retain a higher proportion of their free surplus for investment in growth on which they must deliver an acceptable cash return and also to ensure continued capital strength as part of their business readiness preparations.

Now to look at the deployment of cash. As you're aware we are only allowed to use rand remittances to fund the plc ordinary shareholder dividend while

interest and other central costs after recharges can only funded by hard currency remittances and plc cash. In 2015, as previously discussed, we chose to run a hard currency operational deficit using plc cash to fund both central costs and the portion of cash dividend that we chose not to cover with business remittances. And we also flagged in our preliminary results that the need to use plc cash would likely continue through the period of the managed separation. I would remind you that we hedge forward rand receipts over a rolling 12-month period, so if the rand is stronger in the second half of the year than the overall level at which we hedged, then we will not receive the full benefit of rand strengthening in our sterling cash receipts.

Bringing everything together, the plc closing cash balance at 30th June was £575 million and we expect this to be lower at the year-end principally following the use of £112 million of cash to redeem the Old Mutual plc senior debt which matures in October. We will, however, receive cash inflow of around $58 million in the second half in respect of the new agreement of seed capital plus redemptions.

Moving now to capital. We flagged previously that we had resilience and low volatility in capital under our group construct. And that we had considerable capital resources in South Africa which we are unable to recognise under the strict solvency two rules on fungibility and transferability of capital but which is available for absorbing potential losses. We also highlighted the counterintuitive impact of the stronger rand on our ratios where the rand strengthening actually decreases our coverage ratio. All of these have been evident in the movement in the solvency two capital in the first half. Our plc Solvency II surplus at 1st January 2016, as reported to the PRA, was £1.7 billion, equivalent to a cover ratio of 138%. This is marginally higher than the level reported in our preliminary results statement due to receiving further clarification by the regulators of these new rules. These clarifications are explained in my Finance Director's report.

At 30th June our plc Solvency II surplus was £1.5 billion with a cover ratio of 129% on top of which we have over £1 billion of restricted surplus. Most relates to South African capital included in our Solvency II cover ratio at 100%. Note that due to fungibility restrictions, the stronger rand and increased capital requirement in South Africa do not impact the actual amount of the surplus but do affect the ratio and these impacts equated to five percentage points of the reduction from 1st January to 30th June.

Our capital strength has allowed us to continue to pay our ordinary dividend from statutory profits and reserves, as well as investing for future growth. However, the £111 million of dividend that we paid from plc cash is taken directly off Solvency II, whereas dividend payments using South African cash are not.

Going forward the acquisition of Landmark in the US will reduce our Solvency II ratio by three percentage points on completion and a further three percentage points on acquisition of the second tranche in 2018. The sale of Old Mutual Wealth Italy, however, will increase the ratio by two percentage points on completion.

And here you can see that despite the tough macro and one-offs, each individual business has continued to maintain strong local statutory cover which illustrates its resilience. Each has sufficient local capital to support their normal trading operations whilst investing for growth, preparing for separation and continuing to contribute to plc shareholder dividends in the short-term whilst building dividend paying capacity for their independent futures. We carry out regular multivariable stress and scenario testing at both the plc and business level and remain confident that our capital is appropriate yet not excessive and is resilient to severe stress scenarios.

Adjusted plc Net Asset Value at 30th June was £9.5 billion, equivalent to 193.3 pence per share, up 8% on 2015 year-end. The main driver of the movement was currency, the translation adding £1 billion though partially offset by an adverse movement in the Nedbank and OMAM share prices, equivalent to £148 million of value, and the payment of £315 million of ordinary cash dividends which I referred to earlier.

Bruce talked about the block of values and those are clearly shown on this chart. The blue block of £1 billion of plc central assets show us that we are in a positive position today; but that value has reduced largely reflecting the reduction in plc cash as already discussed.

There are also risks inherent in this value, for example, residual risks in Old Mutual Bermuda. Some of the risks are hedgeable, others are not. These are risks that the shareholder currently bears but they would crystallise were we to affect the separation today. So an important part of our strategy is, as Bruce has indicated when he talked about winding down the plc head office, is therefore to address and manage those risks, increasing the certainty of cash receipts and eliminating liabilities where possible.

This also highlights the careful balance we are seeking to strike between enhancing the value of the underlying businesses, particularly in their business readiness preparations, relative the operating costs and risks of holding the structure together. Through this lens our stakeholders can assess objectively the trade-offs we will make in this regard during the managed separation process.

Now turning to capital management. In March I outlined our new capital management policy. The aim of the policy was to provide flexibility, recognising our need to balance very complex considerations including a background of volatile markets as well as the need to pay costs associated with the managed separation ahead of the realisation of the benefits and to increase capital strength in the businesses which together with continued investment for growth will enhance their future dividend paying capacity.

We said we would pay an appropriate dividend balancing all these considerations and targeting a dividend cover equivalent to 2.5 to 3.5 times AOP earnings with the first interim dividend based arithmetically on cover of three times AOP earnings in the first half of the year. Accordingly, the board has declared a first interim dividend for 2016 of 2.67 pence per ordinary share. And as Bruce said in his introduction, at this early stage of strategy execution we anticipate taking a conservative approach to the full year dividend with

the total dividend for 2016 likely to be in the mid to upper end of our cover range. It remains our intention that after materially reducing debt the board will consider whether there is scope for additional returns of capital to shareholders.

And so to summarise. In half one we maintained business momentum with decent top line growth but reported AOP profits for the plc were down in the first half principally due to the effects of currency and equity market volatility and a number of business specific items as we've previously flagged. Our balance sheet is strong and highly resilient with appropriate and prudent levels of capital, liquidity and gearing. Our plc Solvency II ratio is highly resilient to stress scenarios and we retain over £1 billion of loss absorbing capital surplus which we are not allowed to reflect under Solvency II rules. At a local level we are focused on enhancing the quality and level of capital in order to fund competitive growth initiatives whilst retaining capital strength and ensuring we maintain the capacity to withstand any severe downside scenarios. We are making good progress with our managed separation strategy and are executing from a position of financial strength. We need to remain cautious, however, against the backdrop of a challenging macro environment and retain this strength through conservative management of cash and capital. Accordingly, we have implemented a capital management policy which gives us the financial flexibility we need ensuring that we continue to pay an appropriate dividend to shareholders while executing our strategy to unlock value for shareholders. That concludes my presentation this morning as I had back to Bruce.

Bruce Hemphill: Thanks Ingrid and Paul, thanks Ralph. I think, you know, in summary this has been a challenging half year. Markets haven't been in our favour and we've had some unavoidable one-offs as we flagged to you in June; and at the same time we're trying to ready the businesses and execute a managed separation strategy which we believe will drive value for the shareholders. Our underlying performance in the first half demonstrates the strength of the franchises that we have and that there is positive momentum in each of these businesses. In the short-term we'll likely see an increase in the levels of macro volatility on the back of heightened political uncertainty in most of our key markets and as a consequence earnings will remain under pressure, but we are prepared for that and we'll continue to focus on business readiness, operational performance and strategy execution.

As we've said, we have a capital management policy that gives us financial flexibility and we'll use that flexibility as we execute our strategy. It's still early days but I think – and I hope you'll agree – we're making great progress on managed separation. Fundamental change on this scale is never easy but there's a real energy and a real enthusiasm in the businesses for getting this done and getting on with the task. And we're absolutely confident that it's the right strategy to unlock value. We are delivering it, we will continue to deliver it and we will deliver it well.

So thanks for your attention. We'll now take questions. And for those of you in the audience in London and Jo'burg, please wait for a microphone to come

to you before you ask your question otherwise we won't be able to hear you and I'm going to go to Jo'burg first and then to London and then we'll take questions from the webcast and the telephone lines as well. So Ralph, do you have any questions in Jo'burg?

Ralph Mupita: Bruce I have a couple of hands and we'll start with Michael Christelis.

Michael Christelis: Hi. Morning. Thanks Ralph. Firstly, in South Africa on the Retail Affluent business, this comment around new business strain affecting your results, I mean your new business margin in RA looks quite stable at 1.5%, I mean can you talk a little bit about what's going on, what's driving the new business strain upwards and what's happened with pricing particularly in light of the tax changes that were seen earlier this year. And the other three questions are for London actually. Firstly, the OMGI assets – sorry the OMGI managed assets from the platform at 14% - I seem to remember a target of 20% if I remember correctly. Can you just talk about if that is still something that's achievable. The second one is on the two Tier 2 debt instruments – are there any clauses in those instruments that you think might deter you from being able to, you know, structurally change the structure of the group without paying those down first? I mean could you talk a bit about, you know, some of the restrictions on those two particular instruments? And then lastly just on the UK technology platform costs, you mentioned a cost to date of £225 million – does that include the £39 million spent or deployed under your cash remittance slide and just to reconcile the cash sort of remitted so far versus that £225? Thank you.

Ralph Mupita: Bruce, I'll start with the question on the Retail Affluent side and then hand over to you. Michael, on the Retail Affluent side, I mean I guess the big issue for us in the first half of the year were the tax changes that affected our risk products, particularly Greenlight. We brought on a change post the first quarter in terms of how we're looking at that product range and that's actually what's impacted us, it's pretty much on the risk product side in the first half of the year given the five funds tax changes that have come through. I think as we go into the second half, you know, our product will be appropriately priced for those changes now so I think that's the impact you'll have seen in H1.

Bruce Hemphill: Thanks Ralph. In relation to Michael your third question, the £39 million – that is included in the £225. Paul – can you deal with the OMGI question?

Paul Feeney: Sure. It's certainly still achievable. In terms of a flow basis Intrinsic accounted for about 26% of the net flows into OMGI in the first half of this year and 33% of Platform NCCF. So, clearly the stock will rise and the stock percentage will increase as our flow percentage increases, which is what it's doing.

Bruce Hemphill: Okay. Thanks Paul. Ingrid, can you deal with the debt question?

Ingrid Johnson: Yes. On the debt we certainly have flexibility in terms of the covenants and they are available because they're publicly traded bonds for people to have a look at the conditions. Importantly the debt represents roughly 17% of our own funds which is effectively invested in the businesses we have in the northern hemisphere. So clearly, as you go through asset realisations you will be reducing the debt but we have flexibility about how and when we would do so and it will be influenced by the managed separation process in progress.

Bruce Hemphill: Ralph? Any more questions from Jo'burg?

Ralph Mupita: Yes, we have Larissa.

Larissa v Deventer: Larissa Van Deventer from Barclays. Two questions please. The first one – you showed quite resilient sales in your Mass Foundation segment where we hear a lot about the consumer being under strain. Do you consider the 9% growth sustainable into the second half of the year or are you seeing strain coming in on the sales front? The second one is for London – are you able to give any more colour on the Net Asset Value of the Italian wealth operations that you sold? If you can that would be very helpful.

Ralph Mupita: Larissa, I'll pick up the one on the Mass Foundation cluster. I mean we had 9% sales growth which we thought was reasonable growth, you know, given the challenging macro. You know I mentioned earlier on that we saw some slight persistency strain. That was largely around our savings products. So we certainly expect the consumer to still remain under pressure but our focus is really ensuring that we manage the persistency challenges and focus on value and so in terms of volumes, I mean I wouldn't be standing up here and giving you guidance on where we're going, I mean the key issue for us is, you know, managing affordability and then our foundations around, ensuring that the persistency strain isn't, you know, does not deteriorate in the second half of the year.

Bruce Hemphill: Larissa, on the question of the Italian NAV, I'll get Mark Satchel to answer the question.

Mark Satchel: So the Italian NAV in terms of the local books is about €130 million. We've got a big goodwill component that was originally allocated to the Italian business on the acquisition of Skandia which results in overall book loss that's booked below the line in terms of unamortised part of those tangibles and goodwill that results in a right off of £30 or £40 million.

Bruce Hemphill: Okay. Thanks Mark. Ralph, anything else from Jo'burg?

Ralph Mupita: No further questions, Bruce.

Bruce Hemphill: Right. Thanks Ralph. Can we get a microphone there to …?

Ravi Tanna: Thank you, it's Ravi Tanna, Goldman Sachs. I've three questions please. The first one was in relation to your cash and debt position. You've clearly made a number of announcements around the sale of Italy and release of cash from the US. I was just wondering how much of that will be available at group centre for corporate purposes and debt repayment and what's the kind of timeline and the scheduling on that please? The second question is in relation to the UK business. Obviously you've laid out quite clearly what the one-off or exceptional items are. I'm just – wanted to get a point of clarification across around should we expect anything further in relation to for instance the LTIP costs in Intrinsic or the sunset clause or revenue margin pressures, so in other words what's a kind of sustainable run rate for the UK wealth earnings once we get rid of all of these one-off elements? And then the third one was in relation to the UK platform spend. Again you've alluded to your partners and suppliers sharing in some of the financial risk and I know some of the cost to date has been borne by them. Can you give us a sense perhaps about the arrangements that are in place and whether we should expect further of the cost to be shared going forward? Thank you.

Bruce Hemphill: Thanks, Ravi. Ingrid, can you deal with the first one?

Ingrid Johnson: Yes, it's very simple and it is in the detailed report. Effectively the two cash flows from the seed and the DTA, that's roughly $270 million, so call it £225 million that we will between 2016 and 2018 and then you've got the completion of the sale of Italy equivalent to another say £225 million, so there's roughly £450 million that will emerge over the next 18 months and clearly as part of the managed separation we'd look at how effectively to deploy that cash but clearly acknowledging the bondholders first before shareholders would get any distributions from that.

Bruce Hemphill: Okay. Thanks Ingrid. The second question in relation to other one-off items in the cost base. Mark or Paul?

Paul Feeney: I'll just give a quick update and then I'll ask Mark. In terms of Intrinsic you've seen the LTIP charge of £5 million. We'd expect something similar in the second half and then reducing thereafter but basically that is a result from the acquisition agreement, they're outperforming their targets. So we're quite

pleased with that. In terms of the sunset clause, no, we don't anticipate, you know, anything further there. As far as the main item of charge taken in the first half, I think we've been quite clear on that, you know, to why we've taken that, so Mark, do you want to add anything further?

Mark Satchel: I think Paul you've probably covered most of it. What I probably would just add in terms of margins, as our Heritage book of business proportionately becomes less and old style products also on the international side of the business and in other parts of the business I expect the average margin to be decreasing. But that should be offset by the vertical integration and having more assets managed internally and in multiple parts of our business stack than what we've historically had, so on a net/net basis one of our objectives is to keep that as constant as we can but there are those moving parts or components within it that I'd expect to interact with each other in time.

Bruce Hemphill: Okay. And then just on the UK platform, before asking Paul or Mark to talk on that, I mean we've been – you know, I've been urging the business to be quite cautious on this issue because, you know, historically numbers are put out and we miss the numbers, we miss the timeframes, and so, you know, I've – what I want to see is a properly reworked plan. As Paul said in his presentation we brought in Accenture to help deliver that plan. We've got KPMG providing third party assurance on that plan, so our part – Old Mutual's part of that plan is now in place. It's – we believe it's a good plan. But there is a component of that plan which forces us to place reliance on suppliers, DST and IFDS. And before committing publicly to how that plan is going to play out timewise and cost wise, I want to have assurance from the third party provider that DST and IFDS are going to be able to provide what they're committing to in line with what they're saying, so unfortunately that just takes a bit of time and we expect to have that done in the next sort of 60 to 70 days. Paul, I don't know if you want to add anything?

Paul Feeney: I think you've said it. I think, you know, we've asked for that third party independent assurance on our suppliers, DST and IFDS. They have agreed to that and they are going through that now as we have gone through it. And as Bruce says we have our plans in place. We just want that extra assurance before we come back to you. And we will.

Bruce Hemphill: I think Paul I'll just add one other thing. I mean you know, we've got a new Chief Operating Officer in the business. He's been there six weeks or something. And this is his area of responsibility. It's a massive responsibility and we need to get it right and, you know, I think he needs a little bit of time also to get his hands properly around what we're doing. Right, any other questions in London?

Andy Sinclair: Hi, it's Andy Sinclair from Bank of America, Merrill Lynch

Bruce Hemphill: Hi, Andy

Andy Sinclair: Just one final question from me. Just on Old Mutual Wealth again. I was just wondering if you could give us an update on what you've seen post-Brexit in terms of flows really within the different parts of the businesses within Intrinsic, what's customer behaviour looking like within the platform, what you're seeing within OMGI as well, what's performance been?

Bruce Hemphill: Paul, can you deal with that one?

Paul Feeney: Sure. Well it's early days post-Brexit, obviously, but we're in July and August, so you know, a bit softer, some of that will be the summer, some of it will I think be some investor confidence which will take a little bit longer to come back. I mean there is a huge amount of money sitting on the side-lines out there at the moment in cash. That has not yet come back into the market. As I said before, we've bucked the trend in the first half with our flow so we're in positive territory but a bit softer Andrew. So far.

Bruce Hemphill: Right. If … there aren't any more questions from London we've got some questions – one question on the phone. Can we have that please?

Operator: Thank you. Our question comes from Francois du Toit from Renaissance Capital.

Francois du Toit: Thanks guys, can you hear me?

Bruce Hemphill: Certainly, we can hear you, yeah.

Francois du Toit: Excellent. Yeah, maybe if you can give a bit more colour about the margin pressure that you are seeing on the platform and also any earnings in OMGI, yeah, I guess that's where the acquisition costs come in, right? And then also if you can just give a bit of information on the timing of the P&C claims, the very significant deterioration in the underwriting profits in the P&C operations, was that in the first quarter or the second quarter, and yeah, so do you expect that to still – or – do you expect the budget to continue in the half year in P&C as well?

Bruce Hemphill: Francois thank you. So, Paul, have you got the first one?

Paul Feeney: Sure. I'll take that. Thank you Francois. Well we've seen about a three basis point reduction on our platform margin on the period to period, predominantly as a result of the implementation of the FCA, of the sunset clause, and we can't hold any rebates anymore. At the same time, we've seen a three basis point increase in our asset management business, Old Mutual Global Investors, and they are not unlinked. So I think back to what Mark was saying earlier on, Francois, that overall our goal is to hold margins stable but it won't necessarily be stable in every part of the chain, but those parts of the chain which are furthest from the customer are going to be under more pressure and I've said this repeatedly. And those, you know, which are providing the wealth and asset management services are holding up better, so overall we think that's a reasonable performance in the markets we've had.

Bruce Hemphill: Ralph, do you want to deal with the P&C question?

Francois du Toit: If I could just, getting back to you there, so the –

Ralph Mupita: Francois – I mean we had the large losses in both quarters of the first half and they were of property nature and the trade credit nature but they were in both halves and I don't know, Raimund, if you want to add to that?

Raimund Snyders: Apart from that we had the one catastrophe event in January which was weather related. And if you then look at the second part of Francois's question what is expected in the second half of the year, very much there the trade credit part of claims is linked to the economy, so the economic conditions. So we see customers in sectors under pressure and for that reason we've also gone in spite of our management actions and really look at the extent to which we provide insurance to those partners in those industries under pressure, and the second part is also that the second half of the year, especially the fourth quarter, is traditionally in the South African market higher claims period and related to just weather where the claims are.

Bruce Hemphill: Francois, you had something else to ask in relation to the first question I think?

Francois du Toit: Yes, thank you. The OMGI profits were also disappointing so we haven't seen that margin increase again – is that because of one-off costs and the reduction in the profitability of the platform will be compensated for a future increase in OMGI profits?

Paul Feeney: That is the plan, Francois, I mean the reason OMGI's profits were a little lighter is first of all markets, it is a pure asset management business heavily equity focused. Markets were down 11% on average. At the same time, we had

performance fees in the first half last year in OMGI, we didn't take performance fees in this half and we also had in the first quarter last year we sold our property fund, our commercial property fund, it seemed like fortuitous timing now, but we sold our commercial property fund to Henderson's in the first quarter which realised five or six million profit for us, actually not recurring. And of course we're investing in the business. We've bought new teams in. So overall I think the under – you know, the underlying profit in OMGI is good and we expect that to have a good trajectory going forward and to more than compensate then on the platform side.

Bruce Hemphill: Good, thanks Paul. We have two questions from the webcast, the one is from Greig Paterson and it relates to Old Mutual Wealth, and Paul I'll read it out. "The one-year relative fund performance – what percentage of funds have one year returns above their benchmark and what percentage have performance above the peer mean?"

Paul Feeney: Well look, I think –

Bruce Hemphill: I think if you go to page 60 –

Paul Feeney: Okay, let's go to page 60. So, certainly the performance deteriorated in the second quarter, Greg, and quite frankly let me be even more frank – it deteriorated in the last week of June. So a number of equity funds were positioned for a different outcome in Brexit, so if you'd look at GEAR which is around 20% of the asset base, that underperformed in June and has basically about a 1.7%, 1.8% underperformance which has dragged down – which was a large reason for that underperformance in – of the funds in the first half. Also our UK Alpha and UK equity funds also took a hit in that period. Both have come back a fair bit now in July. In terms of our overall funds, single manager funds, which I think is what you're asking about, the performance over a three-year period is pretty much the same as it was over the three-year period last year – 67% above benchmark. But we did, we have had a movement in that period at the end of June. Which is coming back in July.

Bruce Hemphill: Okay. Greig, I hope that answers your question, and then there's another question from Mohammed Ibrahim. "Why has Nedbank been growing its own life assurance book in recent years in spite of its relationship with Old Mutual?" Well, I mean I'll have a go at this and then Ingrid just if you could help me out.

Bruce Hemphill: As I understand it Nedbank is focused on simple products, so credit life etc., and more complex products it sells via a partnership with various providers including Old Mutual and so it would be natural for Nedbank to continue focusing on growing its credit life business.

Ingrid Johnson: In fact, if you recall in 2009 there was a joint venture between Old Mutual and Nedbank and Nedbank then bought out the other half that it shared with Old Mutual and effectively that was the start of really the simple products versus more complex and yet you're still seeing the asset gathering a lot of flows will actually come through to Old Mutual or into Nedbank's own best of breed and there's very leakage actually outside of the group.

Bruce Hemphill: Okay. Mohammed, I hope that answers your question. We don't seem to have any more questions either on the phone or here in London so to all of you here in London and Johannesburg and on the phones, thank you very much for your time. I look forward to sharing a cup of tea with you now. Thank you very much.