

Making a difference: our business in society

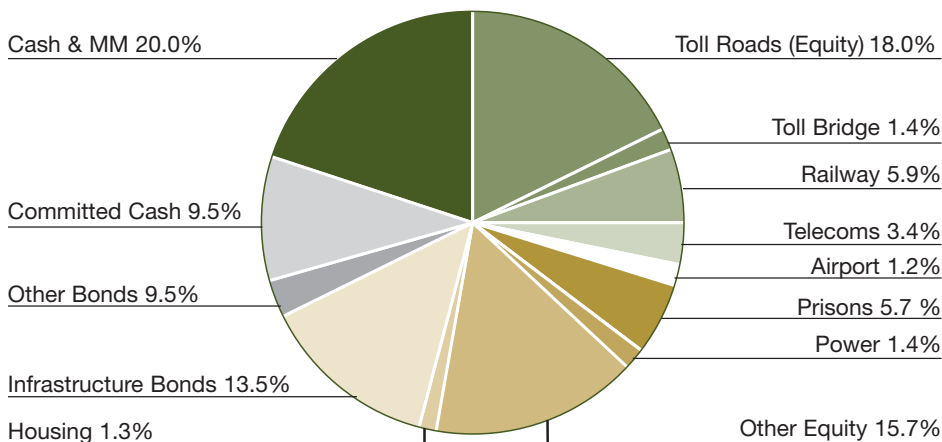
Developing society through investments in infrastructure

South Africa continues to face a significant challenge to rebuild the national infrastructure to meet the challenges of globalisation and therefore of increased global competition. This country also has a leading role to play in rebuilding the infrastructure of the Continent. Old Mutual plays a leading role in contributing to enhancing the infrastructure of both.

At the end of 2004 the Old Mutual Group managed R4.9 billion worth of infrastructure assets at market value (R2003: R3.2 billion; 2002: R2.0 billion). For the same period commitments and direct investments into infrastructure made by OMLACSA, amounted to R2.5 billion at market value (2003: R1.8 billion; 2002: R1.0 billion).

These investments have been particularly rewarding for investors. The Infrastructure, Developmental and Environmental Assets Fund (IDEAS), for instance, beat its inflation plus 7% target since inception (15.8% versus target of 11.9%); over three years (14.3% versus target of 12.3%); and over 12 months to date (21.2% versus target of 10.4%).

The IDEAS Fund (market value as at end December 2004, R1 billion) comprises the following investments:



In addition, Old Mutual Asset Managers, together with Macquarie (Africa) manages the R0.9 billion South Africa Infrastructure Fund (SAIF), and the R1.3 billion African Infrastructure Investment Fund (AIIF).

Developing society through broadening the economy

Old Mutual has long championed black economic empowerment through internal policies and programmes, and through concrete actions that enable the transfer of ownership of sections of the economy into the hands of black entrepreneurs and businesses.

In 2004 Old Mutual continued to play a leading role in this regard, facilitating a number of important empowerment deals that included black investment into national companies Metcash, Pepkor, Brait and Foodcorp. Aggregated, Old Mutual in 2004 invested R275 million in unlisted companies more than 50%-owned by blacks, and R586 million in companies with between 25% and 50% black ownership.

Overall, Old Mutual had facilitated, either through direct investment in black companies or by structuring finance, empowerment deals with a market value of R1.7 billion as at end-December 2004.



The N3 Toll Road – an Old Mutual infrastructure investment; and Old Mutual Managing Director, Roddy Sparks, with Transnet Group Chief Executive, Maria Ramos.

Old Mutual has facilitated empowerment either through direct investments or through structured financing for, among others:

- Equity Aviation
- Kunene Brothers
- Thebe Investments
- J & J Holdings
- WIPHOLD
- Aka Capital
- Brimstone
- Sekunjalo
- Dudula Shipping
- Worldwide Investments
- Kensani Consortium
- Amabubesi Holdings

Ensuring access to our products

A key method of broadening the economy, and one recognised by the Financial Sector Charter, is to make financial products available to a wider market of consumers. While the Charter process at the end of 2004 had not yet reached a final definition of the requirements to be placed on financial services companies, at Old Mutual we have nevertheless committed to making as many products available to as many South Africans as is financially viable.

In this respect, Old Mutual Group Schemes has already made significant headway, with over 600 000 of its more than 800 000 customers in the low-income category (earning between R2 500 and R8 000 gross income a month).

Key to the strategy of making products available to a wider consumer base, particularly those in the lower-income category, has been the provision of financial and consumer education.

An analysis commissioned by Old Mutual from Mostly Media concludes that Old Mutual still leads the industry in this respect owing to ongoing initiatives such as the Old Mutual and People's Bank "You and Your Money" booklets and talk shows sponsored and broadcast on community radio stations.

Our financial and consumer education initiatives occur through a variety of channels, as follows:

- Face-to-face workshops reached an estimated 60 000 people, and were carried out through various business units;
- Seminars and events featuring guest speakers reached about 3 000 people;
- Radio talkshows and drama/industrial theatre reached an estimated 5 million people through SABC programming and community radio;
- Electronic mail and Intranet services are used to educate staff on financial markets and general consumer affairs;
- A great deal of advertising, public relations and media liaison carries financial and consumer education that has reached an estimated 800 000 people.

A total of R7.9 million was invested in direct financial education initiatives. Added to the R7.3 million invested in financial education through the Academy for Financial Planners, a total of R15.2 million was invested helping South Africans make astute decisions towards financial independence. The investment is in excess of the 0.2% post tax operating profit figure required by the Financial Sector Charter.

The Academy began operations in 2004 and is designed as an initiative to address the shortage of black graduates who wished to take up as a profession a career in financial planning.

Set up with an investment of R1.1 million, the Academy now has an operating budget of R6.2 million, and is set to play a major role in recruiting and training talented black financial planners for the entire financial services industry.

Developing SME partnerships

The year under review saw a number of small businesses partner with Old Mutual, continuing a trend that began a number of years ago and that has already seen Key Stationers, Kusela Security, Master Currency and Lizwe Travel take their place as suppliers to the group.

During 2004 Old Mutual appointed five suppliers of temporary employment services to business units throughout Old Mutual in South Africa. The five appointed are each empowered: Quest, Kelly, Masibambane, Capital Outsourcing, and The Placement Team.

As has been the case previously, the appointments were based, apart from empowerment, on the capability of each to deliver a quality service at the best possible price.

In addition, the licence to operate the popular coffee shop on the premises of Mutualpark was awarded to Indibano, and a cleaning contract was handed to Vuya Cleaning.

Old Mutual Properties has also been active. When Tilca, previously facilities manager of the Old Mutual headquarters at Mutualpark, went into liquidation, Old Mutual Properties took over the facilities management and saw the opportunity to spin off a portion of the contract to a group of ex-Tilca employees who were on six-month contracts. The new company – Creative Maintenance Solutions – has been in operation since August 2004, and is already providing Tenant Installation Project Management services elsewhere in the Western Cape. Old Mutual Properties is funding training courses for the emerging company. Similarly, a maintenance worker at the Old Mutual Properties' Cavendish Square has been supported in his desire to start his own maintenance company. He is now the proprietor of Utility Building Maintenance and is also now working beyond the Old Mutual portfolio of business.

Procurement and suppliers

Having set an overall target of 30% of overall procurement spend that is influenceable (where the company can make discretionary purchasing decisions), the company reached an actual total of 38%. While this has been aided by the use of black contractors on Old Mutual Properties construction projects, there has also been a concerted drive to extract value from the existing database. To this end, plans have been drawn up and efforts begun to limit newcomers to the supplier database to those already empowered; to ensure that spend favours black- and women-owned small and medium-enterprises and that these are paid within 14 days of receipt of an invoice; and to conduct a project within the supplier database among non-empowered companies to encourage them to engage in empowerment of their own.

A key activity during 2004 was the audit of the supplier database to classify suppliers into the Charter definitions of black-owned; black-empowered; and black-influenced.

The overall Charter-weighted procurement picture for 2004 follows:

Total Influenceable Spend	Black-owned Companies Weighting 125%	Black-empowered Companies Weighting 100%	Black-influenced Companies Weighting 75%
R2.29 billion	R321.9 million	R455.2 million	R82.5 million

Managing the effects of HIV/AIDS on the business

Old Mutual Chief Actuary Gary Palsler and his team constantly measure the impact on the business of AIDS claims and they ensure the business incorporates the correct and current statistics in their business planning. The work of this team ensures that product pricing is adequate, the cash reserves are sufficient and generally that managers are correctly informed regarding the disease.

Old Mutual is party to the decision taken at the Life Offices Association (LOA) to scrap HIV/AIDS exclusions on new business written from 2005. This step is possible because the intense research of the past three years means the disease can be quantified and priced for – a fundamental aspect of risk underwriting.

The effect of this decision is that HIV/AIDS sufferers will be treated no differently from sufferers of other diseases. However, normal underwriting principles will apply to all applicants for life insurance from all insurers, including Old Mutual.

Building sustainable business performance

Adjusted operating profit for Old Mutual (SA) increased by 4% to R6 215 million in 2004.

Adjusted operating profit for the asset management businesses, excluding Nedcor, decreased to R544 million in 2004 from R554 million in 2003. Higher asset levels driven largely by the better performing South African equity market contributed positively. This has been offset by lower



The Indibano coffee shop at Mutualpark is one of a number of Old Mutual (SA)-SME partnerships struck in 2004. Pictured here is Manager, Durell Platt. Other SME partners include Sherizaad Frantz (The Placement Team) and Yvonne Damonze (Vuya Cleaning).

"We are equipped with knowledge and skills to be there for our peers but we are really there for all. Sharing HIV information with one person can result in many others learning as well. It might just make a difference in someone's life without you even knowing it. Lend an ear, share and guide, that's what I do as a peer educator. It helps others and makes me feel good."

AAMAL SAMSODIEN
Actuarial Services
HIV/AIDS Peer Educator

trading profit in the unit trust company resulting from changes in industry guidelines regarding trading in units, charges relating to the accounting treatment of share incentive arrangements, the cost of the acquisition of Quaystone mandates and the development of administration infrastructure.

Funds under management continue to grow

Client funds under management for the business increased by 15% from R270 billion to R312 billion. Life assets were 9% higher, reflecting the equity market uplift partly offset by negative cash flows. Asset management assets were 31% higher, driven by strong market returns and positive client cash flow.

Total net client cash flow was a negative R4 billion, primarily due to net negative flows of R10 billion in Group Life business. This was offset by positive net cash flows of R6 billion in asset management, with Individual Life Business flows being broadly neutral.

Old Mutual Asset Managers (South Africa) (OMAM) delivered strong investment performance, being ranked first out of the eleven institutional asset managers in the Alexander Forbes Global Manager Watch (Large) Survey over the year ended December 2004.

Rapid growth in unit trust sales

Unit trust sales increased by 52% from R3.3 billion in 2003, to R5.0 billion in 2004. Unit trust investment performance was good, with eleven funds positioned in the top quartile of their respective peer groups and seven of these funds being top in their respective categories.

Total life sales impacted by weak Group Business

Total life sales, including Old Mutual International (OMI), on an APE basis for the period were R3 084 million, 10% lower than the comparative period in 2003. Group Business sales continued to disappoint throughout the year. Individual Life Business sales were at similar levels to 2003 and Group Business significantly lower.

<i>Individual Life Business sales mixed</i>			
Individual APE* (Rm)	2004	2003	Var %
Savings	1 075	1 138	(6%)
Protection	651	701	(7%)
Immediate annuity	164	125	31%
Group Schemes	612	556	10%
Total excl. OMI	2 502	2 520	(1%)
OMI	160	112	43%
Total incl. OMI	2 662	2 632	1%
– Single	792	686	16%
– Recurring	1 870	1 946	(4%)

* Annualised Premium Equivalent (APE): Annual Recurring Premiums plus 10% of single premiums.

A low level of Group Business sales continued throughout 2004 with no material single premium flows, the exception being the protection business which increased by 41% to R120 million. Group Business single premiums fell 59% to R240 million; recurring premiums also decreased by 20% to R182 million. Group Business single premium sales arise principally from restructuring of benefit plans or the movement of existing assets between different providers. The time-consuming nature of pension fund surplus apportionments (a legislative requirement) and a slow response by companies to provide for post-retirement medical aid liabilities meant that few opportunities crystallised in 2004 for Group Business single premium sales.

<i>Group Business sales disappoint</i>			
Group APE (Rm)	2004	2003	Var %
Savings	260	495	(47%)
Protection	120	86	41%
Annuity	42	228	(82%)
Total	422	809	(48%)
– Single	240	582	(59%)
– Recurring	182	227	(20%)

Lower value of new business, but steady margins

The after-tax value of new business excluding OMI, was 13% down on 2003 to R719 million. Growth of 18% in the value of Individual Life Business, reflecting the positive impact of economic and assumption changes, was offset by a 65% reduction in the value of Group Business. The overall new business margin remained stable at 25%.

The value of in-force business (VIF) of R10 903 million at 31 December 2004 increased from R9 832 million at 31 December 2003. The Group Business VIF declined by 12% on account of the relatively low new business value added, the negative impact of operating assumption changes and the increase in the cost of solvency capital.

Management actions showing returns

Old Mutual (SA) has increased its Personal Financial Advisers (PFA) sales force from 2 314 at 31 December 2003 to 2 643 at 31 December 2004.

Furthermore, the implementation of the Compass administration IT platform will provide increased efficiency and service benefits for administration clients.

Solid capital position

The capital strength of the life company has been demonstrated through Statutory Capital Adequacy Requirement (SCAR) coverage of 2.6 times, after allowing for statutory limitations on the value of certain assets. In addition, the proportion of cash in shareholders' funds backing statutory capital requirements increased from 20% in 2003 to 43% in 2004. During 2004 R2.6 billion was invested in Nedcor to support its recapitalisation and a net R0.6 billion was invested to acquire our increased shareholding in Mutual & Federal.

Our investment teams enabled Old Mutual to declare the following bonuses to clients:

Old Mutual's 2004 Bonus Declarations	2004	2003	2002	2001
Flexi Smoothed Bonus Endowment declarations*	10.0%	5.0%	2.0%	12.0%
Smoothed Bonus Retirement Annuity declarations*	10.4%	5.4%	2.5%	12.5%
Employee Benefits Guaranteed Funds**	10.0%	1.5%	12.0%	15.5%
Employee Benefits With Profits Annuities (Platinum Category A – 1999 series)***	6.5%	3.0%	3.5%	9.0%
Employee Benefits With Profits Annuities (Optiplus Category 1)***	6.0%	3.0%	7.0%	8.0%

Year-end headline inflation rate: 3.4%

* December declaration

** June declaration

*** Declared for the financial year but with annuity increase applying in following year

A Summary of the Economic Impact of Old Mutual

	2004	2003	2002	2001
OMLACSA Investments in Infrastructure	R2.5 bn	R1.7 bn	R1 bn	N/A
Old Mutual (SA) Managed Investments	R4.9 bn	R3.2 bn	R1.9 bn	N/A
% Equity Owned by black South Africans	16% (incl. deal)	3% – 4%	3% – 4%	N/A
OMLACSA Assets Invested in BEE	R1.7 bn	R2.2 bn	R2 bn	R2 bn
Financial education spend	R15.2 mil	R8.7 mil	R9.0 mil	R9.2 mil
Total Procurement Spend With Suppliers	R2.3 bn	R2.5 bn	R2.4 bn	R2.6 bn
% Spend on BEE Procurement	38%	22.5%	6%	N/A
Benefit Payments	R38.1 bn	R34.4 bn	R39.1 bn	R33.6 bn
Total Remuneration	R1.9 bn	R1.8 bn	R2.1 bn	R1.8 bn
Total Taxes and Levies Paid*	R2.1 bn	R1.6 bn	R2.8 bn	R3.2 bn
Dividends Paid to South African Shareholders	R1.4 bn	R1.2 bn	R1.6 bn	R1.3 bn

* OMLAC(SA) deferred tax excluded.