When life happens

Reviewed Interim Report

Santam Limited Interim Report for the six months ended 30 June 2003

2003

Santam Limited and its Subsidiaries

Interim Report for the six months ended 30 June 2003

NON-EXECUTIVE DIRECTORS

JJ Geldenhuys, JG le Roux, NM Magau, AR Martin,
JE Newbury, P de V Rademeyer,
GE Rudman, DK Smith (Chairman),
J van Zyl, BP Vundla

EXECUTIVE DIRECTORS

SC Gilbert (Chief executive),
JA van Tonder, JW Wilken

COMPANY SECRETARY

VF Malie

TRANSFER SECRETARIES

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PO Box 61051, Johannesburg 2000
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ISIN ZAE000006854, JSE share code: SNT,
NSX share code: SNM

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Santam Limited and its Subsidiaries

Interim Report for the six months ended 30 June 2003

Highlights

- *28% increase in gross written premium*
- *Significant improvement in underwriting surplus and operating income*
- *40% increase in headline earnings per share*
- *Strong cash flow generated by operating activities*
- *Westminster Motor Insurance acquisition finalised*

Income statement

	Notes	**Reviewed Six months ended 30 June 2003 R millions**	Unaudited Six months ended 30 June 2002 R millions	% Change	Audited Year ended 31 December 2002 R millions
Gross written premium		**4 387**	3 429	28	8 197
Net written premium		**3 325**	2 549	30	5 635
Net earned premium		**3 210**	2 568	25	5 548
Claims incurred		**2 173**	1 807		3 925
Net commission		**418**	325		698
Management expenses		**445**	357		783
Underwriting surplus		**174**	79	120	142
Investment return on insurance funds		**107**	48		115
Operating income		**281**	127	121	257
Investment income	2	**53**	131		179
Income from associates		**(4)**	(12)		(1)
Income before taxation		**330**	246	34	435
Taxation	3	**113**	94		116
Minority interest		**11**	5		14
Headline earnings		**206**	147	40	305
Amortisation of goodwill		**12**	–		3
Attributable earnings to shareholders		**194**	147		302
Pro forma earnings based on long-term rate of return	4	**333**	245	36	516
		Cents	Cents		Cents
Earnings per share					
Headline earnings per share		**184**	132	39	274
Attributable earnings per share		**173**	132	31	271
Pro forma earnings per share based on long-term rate of return		**297**	220	35	464
Dividend per share		**72**	65	11	170

Balance sheet

	Reviewed As at 30 June 2003 R millions	Unaudited As at 30 June 2002 R millions	Audited As at 31 December 2002 R millions
ASSETS			
Non-current assets			
Property and equipment	**64**	34	41
Goodwill	**107**	–	33
Deferred taxation	**23**	–	14
Investments	**3 338**	3 245	3 208
Listed at market value	**2 591**	2 581	2 480
Unlisted at directors' valuation	**707**	629	697
Investment in associated companies	**40**	35	31
Technical assets	**1 945**	1 576	2 073
Current assets	**3 830**	2 497	3 548
Amounts due by debtors, reinsurers and outstanding premiums	**1 167**	921	1 276
Cash and cash equivalents	**2 663**	1 576	2 272
Total assets	**9 307**	7 352	8 917
EQUITY AND LIABILITIES			
Capital and reserves	**3 420**	3 283	3 375
Minority shareholders' interest	**44**	32	39
Deferred taxation	**42**	135	34
Technical provisions	**4 580**	3 200	4 226
Current liabilities and provisions	**1 221**	702	1 243
Total equity and liabilities	**9 307**	7 352	8 917
Number of shares in issue (millions)	**112,2**	111,4	111,8
Weighted average number of shares in issue (millions)	**112,0**	111,1	111,4
Net asset value per share (cents)	**3 049**	2 946	3 018
Solvency margin (%)	**53**	68	60

Statement of changes in equity

	Reviewed As at 30 June 2003 R millions	Unaudited As at 30 June 2002 R millions	Audited As at 31 December 2002 R millions
Balance as at beginning of period	**3 375**	3 230	3 230
Shares issued	**7**	12	21
Attributable income to shareholders	**194**	147	302
Translation difference on foreign entities	**(39)**	–	–
Dividends paid	**(117)**	(106)	(178)
Balance as at the end of period	**3 420**	3 283	3 375

Cash flow statement

	Reviewed Six months ended 30 June 2003 R millions	Unaudited Six months ended 30 June 2002 R millions	Audited Six months ended 31 December 2002 R millions
Cash generated from operations	**355**	163	682
Income before taxation	**330**	246	435
Depreciation charge	**8**	8	16
Other non-cash adjustments	**6**	12	(8)
Investment income	**(159)**	(179)	(294)
Change in working capital	**170**	76	533
Dividends and interest received	**244**	140	309
Cash generated by operating activities	**599**	303	991
Taxation paid	**(75)**	(81)	(96)
Dividends paid	**(122)**	(106)	(178)
Cash retained from operating activities	**402**	116	717
Cash generated by investment activities	**72**	371	353
Cash retained from operating and investment activities	**474**	487	1 070
Proceeds from ordinary shares issued	**7**	12	21
Proceeds from disposal of associated companies	**–**	–	13
Investment in associated companies	**(22)**	(5)	(5)
Investment in subsidiaries	**(408)**	–	(36)
Cash acquired through acquisition of subsidiaries	**391**	–	143
Cash utilised in addition to fixed assets	**(16)**	(5)	(21)
Translation effect on cash	**(35)**	–	–
Cash generated for the year	**391**	489	1 185
Cash and cash equivalents at beginning of period	**2 272**	1 087	1 087
Cash and cash equivalents at end of period	**2 663**	1 576	2 272

Segmental reporting

	Gross written premiums			Underwriting surplus		
	Reviewed Six months ended 30 June 2003 R millions	Unaudited Six months ended 30 June 2002 R millions	Audited Year ended 31 December 2002 R millions	**Reviewed Six months ended 30 June 2003 R millions**	Unaudited Six months ended 30 June 2002 R millions	Audited Year ended 31 December 2002 R millions
Insurance class						
Motor	**1 856**	1 409	2 999	**84**	29	44
Property	**1 209**	1 018	2 132	**(8)**	8	(26)
Liability	**261**	188	482	**26**	5	18
Crop	**185**	142	611	**25**	14	36
Miscellaneous	**180**	131	608	**20**	(1)	34
Engineering	**168**	124	300	**3**	(5)	(7)
Alternative risk	**166**	86	391	**2**	3	7
Transportation	**143**	121	251	**8**	9	40
Accident and health	**122**	103	214	**–**	8	11
Guarantee	**97**	107	209	**14**	9	(15)
	4 387	3 429	8 197	**174**	79	142
Geographical						
Southern Africa	**4 214**	3 429	7 911	**145**	79	144
Europe & UK	**173**	–	286	**29**	–	(2)
	4 387	3 429	8 197	**174**	79	142

Note: *Due to the general nature of the balance sheet, segmental reporting is limited to the income statement.*

Notes to the financial statements

1. ACCOUNTING POLICY

The interim consolidated financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice on interim reporting (AC 127). The accounting policies are consistent with those used in the annual financial statements for the year ended 31 December 2002 except for the adoption of AC 133 (Financial instruments – Recognition and measurement) which has been applied from 1 January 2003. The adoption of AC 133 had no effect on opening reserves as the investments were measured on a similar basis in the past.

1.1. Comparative figures

Where necessary, comparative figures (June 2002) have been restated to conform to changes in presentation of earnings based on long-term rate of return.

	Reviewed Six months ended 30 June 2003 R millions	Unaudited Six months ended 30 June 2002 R millions	Audited Year ended 31 December 2002 R millions
2. INVESTMENT INCOME			
Interest	**38**	53	113
Dividends	**76**	57	114
Foreign exchange differences	**(6)**	–	(17)
Net investment deficit and impairments	**(48)**	25	(22)
Investment management fee	**(7)**	(4)	(9)
Investment income	**53**	131	179
3. TAXATION			
Analysis of income tax			
Operating profit	**85**	39	78
Investment income	**14**	53	30
Other	**14**	2	8
Tax	**113**	94	116
4. NET LONG-TERM RATE OF RETURN ADJUSTMENT			
Attributable earnings to shareholders	**194**	147	302
Net long-term rate of return adjustment	**139**	98	214
Gross investment return	**151**	86	255
Tax	**12**	(12)	41
Pro forma earnings based on long-term rate of return	**333**	245	516
A comparison of the aggregate actual and calculated long-term returns after tax since 1 January 2001 is set out below:			
Actual returns	**642**	536	608
Long-term returns	**869**	508	695
Excess aggregate short-term fluctuations	**227**	(28)	87

Comments

The group achieved exceptional operating results for the period under review, increasing the underwriting surplus to R174 million and operating income to R281 million.

Gross written premium increased by 28%, of which 23% resulted from the southern African activities and 5% from the new acquisitions in the UK.

A number of factors contributed towards the improved underwriting results. Favourable weather patterns and increased underwriting discipline resulted in significant improvement in the crop and motor insurance classes. In addition, the typically more volatile insurance classes, such as liability also experienced low claims ratios. The acquisition of Westminster Insurance Association, a niche player in the UK motor insurance market, was concluded in January. The business made a significant contribution during the period, achieving very satisfactory margins and resulting in a contribution of R29 million to the underwriting surplus.

Despite the general favourable climatic conditions, severe flooding in the Klein Karoo and a number of incidences of fire negatively impacted on the property portfolio results. Overall, personal lines have improved, but are still only marginally profitable. Certain operational restructuring initiatives were effected during the period to increase efficiencies, resulting in a non-recurring charge of R18 million.

The investment return on insurance funds increased by 123% to R107 million. High short-term interest rates, focus on cash management and the addition of Westminster's float were the main contributors toward the improvement. Although equity markets recovered considerably during the second quarter, losses during the first quarter left their mark on investment returns. However, on a relative basis, the portfolio performed satisfactorily.

Despite the depressed performance of the equity market, headline earnings improved by a healthy 40%. By applying the downwardly adjusted long-term rate of return of 12%, which eliminates short-term volatility, pro forma earnings based on the long-term rate of return increased by 36%.

Cash generated from operating activities increased by 98% mainly as a result of the increased profitability and management of working capital. The solvency margin remained firm at 53% compared to 60% at 31 December 2002.

In line with Santam's commitment to Black Economic Empowerment and the company's imperative to build on the positive progress achieved to date, the company has actively participated in the formulation and development of the Financial Services Charter.

The board would like to extend its thanks to Santam's management, staff and brokers for their effort and support during the first half.

PROSPECTS

In line with the group's theme of focusing on the basics, it will continue to apply strict underwriting disciplines, especially in areas where the results are still not satisfactory. There will be a continued focus on cash management and cost control. Procurement initiatives during the latter part of 2002 and the early part of this year have started to yield positive results. Against this background, bar any unforeseen events, the outlook from an underwriting perspective for the second half remains positive.

Declining interest rates will have an adverse impact on investment returns. However, there seems to be some consensus amongst analysts that the South African equity market could stabilise and even recover further during the second half.

DECLARATION OF DIVIDEND (NUMBER 98)

Notice is hereby given that the board has declared an interim dividend of 72 cents per share (2002: 65 cents). Shareholders are advised that the last day to trade "cum dividend" will be Thursday 18 September 2003. The shares will trade "ex dividend" from the commencement of business on Friday 19 September 2003. The record date will be Friday 26 September 2003 and the payment date will be Monday 29 September 2003. Share certificates may not be dematerialised or rematerialised between Friday 19 September 2003 and Friday 26 September 2003, both dates inclusive.

REVIEW BY AUDITORS

The company's external auditors, PricewaterhouseCoopers Inc, have reviewed the interim announcement. A copy of their unqualified review opinion is available on request at the company's registered office.

On behalf of the board

DK Smith
Chairman

SC Gilbert
Chief Executive

26 August 2003