



When life happens

Abridged Financial Report

Santam Limited Abridged Financial Report for the year ended 31 December 2003

2003

Highlights

- 273% IMPROVEMENT IN UNDERWRITING SURPLUS
- 186% INCREASE IN OPERATING INCOME
- 174% INCREASE IN HEADLINE EARNINGS PER SHARE
- CASH GENERATED BY OPERATING ACTIVITIES EXCEEDS R1.5 BILLION
- 29% INCREASE IN DIVIDENDS PER SHARE

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*),
MJ Reyneke

COMPANY SECRETARY

VF Malie

SPONSOR

Investec Securities Limited

TRANSFER SECRETARIES

Computershare Limited
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PO Box 61051, Marshalltown, 2107
Tel (011) 370 7700, Fax (011) 688 7721
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SANTAM HEAD OFFICE AND REGISTERED ADDRESS

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Registration number 1918/001680/06
ISIN ZAE000006854, JSE share code: SNT,
NSX share code: SNM

Santam Limited and its Subsidiaries
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Income statement

	Notes	Reviewed Year ended 31 December 2003 R millions	Audited Year ended 31 December 2002 R millions	% Change
Gross written premium		9 513	8 197	16
Net written premium		7 022	5 635	25
Net earned premium		6 755	5 548	22
Claims incurred		4 375	3 925	
Net commission		789	698	
Management expenses		1 061	783	
Underwriting surplus		530	142	273
Investment return on insurance funds		205	115	78
Operating income		735	257	186
Investment income	2	498	179	178
Income from associates		(12)	(1)	
Income before taxation		1 221	435	181
Taxation	3	356	116	
Minority interest		22	14	
Headline earnings		843	305	176
Amortisation of goodwill		37	3	
Attributable earnings to shareholders		806	302	167
Pro forma earnings based on long-term rate of return	4	777	516	51
		Cents	Cents	
Earnings per share				
Headline earnings per share		751	274	174
Attributable earnings per share		718	271	165
Pro forma earnings per share based on long-term rate of return		692	464	49
Dividend per share		220	170	29

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Balance sheet

	Reviewed As at 31 December 2003 R millions	Audited As at 31 December 2002 R millions
ASSETS		
Non-current assets		
Property and equipment	70	41
Goodwill	109	33
Deferred taxation	14	14
Investments	3 835	3 208
Investments in associated companies	150	31
Available-for-sale investments	3 645	3 137
Trading assets	40	40
Technical assets	2 302	2 073
Current assets	4 379	3 548
Amounts due by debtors, reinsurers and outstanding premiums	1 176	1 276
Cash and cash equivalents	3 203	2 272
Total assets	10 709	8 917
EQUITY AND LIABILITIES		
Capital and reserves	3 956	3 375
Minority shareholders' interest	53	39
Deferred taxation	135	34
Technical provisions	5 156	4 226
Current liabilities and provisions	1 409	1 243
Total equity and liabilities	10 709	8 917
Number of shares in issue (millions)	113.6	111.8
Weighted average number of shares in issue (millions)	112.3	111.4
Net asset value per share (cents)	3 482	3 018
Solvency margin (%)	56	60

Statement of changes in equity

	Reviewed Year ended 31 December 2003 R millions	Audited Year ended 31 December 2002 R millions
Balance as at beginning of year	3 375	3 230
Shares issued	39	21
Attributable income to shareholders	806	302
Translation difference on foreign entities	(66)	–
Dividends paid	(198)	(178)
Balance as at the end of year	3 956	3 375

Cash flow statement

	Reviewed Year ended 31 December 2003 R millions	Audited Year ended 31 December 2002 R millions
Cash generated from operations	1 092	682
Income before taxation	1 221	435
Depreciation charge	22	16
Other non-cash adjustments	(5)	(8)
Investment income	(703)	(294)
Change in working capital	557	533
Dividends and interest received	418	309
Cash generated by operating activities	1 510	991
Taxation paid	(233)	(96)
Dividends paid	(200)	(178)
Cash retained from operating activities	1 077	717
Cash utilised in net investment activities	(31)	353
Cash retained from operating and investment activities	1 046	1 070
Proceeds from ordinary shares issued	39	21
Proceeds from disposal of associated companies	–	13
Investment in associated companies	(69)	(5)
Investment in subsidiaries	(408)	(36)
Cash acquired through acquisition of subsidiaries	406	143
Cash utilised in additions to fixed assets	(36)	(21)
Translation effect on cash	(47)	–
Cash generated for the year	931	1 185
Cash and cash equivalents at beginning of year	2 272	1 087
Cash and cash equivalents at end of year	3 203	2 272

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Segmental reporting

	Reviewed Year ended 31 December 2003	Audited Year ended 31 December 2002	Reviewed Year ended 31 December 2003	Audited Year ended 31 December 2002
Geographical segments	R millions	R millions	R millions	R millions
	Gross written premium		Underwriting surplus	
Income statements				
Southern Africa	8 926	7 911	465	144
Europe & UK	587	286	65	(2)
	9 513	8 197	530	142
	Total assets		Total liabilities	
Balance sheets				
Southern Africa	9 446	8 499	5 894	5 186
Europe & UK	1 263	418	806	317
	10 709	8 917	6 700	5 503

Revenue analysis

	Reviewed Year ended 31 December 2003	Audited Year ended 31 December 2002	Reviewed Year ended 31 December 2003	Audited Year ended 31 December 2002
	R millions	R millions	R millions	R millions
	Gross written premium		Underwriting surplus	
Insurance class				
Motor	3 773	2 999	177	44
Property	2 648	2 132	133	(26)
Liability	616	482	30	18
Crop	638	611	50	36
Miscellaneous	347	608	61	34
Engineering	352	300	22	(7)
Alternative risk	402	391	10	7
Transportation	282	251	13	40
Accident and health	253	214	6	11
Guarantee	202	209	28	(15)
	9 513	8 197	530	142

Notes to the financial statements

1. ACCOUNTING POLICY

The abridged consolidated financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice and are consistent with those used in the annual financial statements for the previous year ended 31 December 2002 except for the adoption of AC133 (Financial instruments – Recognition and measurement) which has been applied from 1 January 2003. The adoption of AC133 had no effect on opening reserves as financial instruments were accounted for on a similar basis as in the past.

	Reviewed Year ended 30 June 2003 R millions	Audited Year ended 31 December 2002 R millions
2. INVESTMENT INCOME		
Interest	87	113
Dividends	151	114
Foreign exchange differences	(20)	(17)
Net investment surplus	289	(22)
Investment management fee	(9)	(9)
Investment income	498	179
3. TAXATION		
Analysis of income tax		
Operating income	222	78
Investment income	121	30
Other	13	8
Tax	356	116
4. NET LONG-TERM RATE OF RETURN ADJUSTMENT		
Attributable earnings to shareholders	806	302
Net long-term rate of return adjustment	(29)	214
Gross investment return	(79)	255
Tax	(50)	41
Pro forma earnings based on long-term rate of return	777	516
A comparison of the aggregate actual and calculated long-term returns after tax excluding investment return on insurance funds since 1 January 2001 is set out below:		
Actual returns	985	608
Long-term returns	1 042	695
Excess aggregate short-term fluctuations	57	87

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Comments

Santam concluded its most profitable financial year ever and achieved exceptional results on all fronts. Underwriting surplus amounted to R530 million, 273 percent higher than 2002, while operating income increased by 186 percent to R735 million.

Gross written premium increased by 16 percent, with the international component doubling from 2002 levels. Net written premium was up 25 percent, largely due to an improved focus on reducing reinsurance costs without an undue increase in exposure.

Several factors contributed to the substantial increase in underwriting profits, of which the lower claims ratio, especially in southern Africa, was the largest contributor. The net claims ratio decreased by 6 percentage points to 64,8 percent in 2003, largely due to the strength of the underwriting cycle and continued strict underwriting discipline. This was further enhanced by favourable climatic conditions and fewer man-made disasters, all of which favourably impacted on the crop, motor and property insurance classes respectively. The typically more volatile class of insurance business such as liability and guarantee also achieved lower claims ratios.

On the international front, the Westminster Motor Insurance Association results were included in the group's results for the first time this year. Together with the participation in the Beazley Syndicate, operations in the UK and Europe contributed R65 million to the group's underwriting results.

Net acquisition cost ratio increased by 0,7 percent compared to 2002 and included higher performance bonuses and profit sharing provisions as a result of higher profitability.

Higher than expected short-term interest rates in the first 9 months, combined with increased focus on cash management, increased operational activity and the acquisition of Westminster's float saw the investment return on insurance funds increase by 78 percent to R205 million.

The recovery of equity markets in the second half of 2003 largely contributed to investment income being 178 percent higher. The negative equity income from associated companies is due to Santam's share of start-up costs incurred in Bluesure Ltd., an associated company in the UK.

As a result of the favourable underwriting results and higher investment return, the headline earnings per share improved by 174 percent at 751cps compared to 274 cps in 2002.

Cash generated by operating activities exceeded R1.5 billion, up 52 percent as a result of increased profitability and improved management of working capital. Due to the strong growth in net written premium, the solvency margin reduced from its 2002 level of 60 percent to a still healthy 56 percent.

The board would like to extend its thanks to Santam's management, staff, brokers and other business partners for their effort and support during the past year.

PROSPECTS

The "back to basics" theme laid the foundation for enforcing effective underwriting disciplines, which will continue in the future. There will be continued focus on cash management and cost control in 2004. Although the favourable conditions will most likely not be repeated, we expect the firm underwriting cycle to continue during 2004.

Lower interest rates for at least the first half of 2004 will have an adverse impact on interest bearing investment returns. Indications are that the equity markets will remain strong, which will have a favourable effect on equity returns.

The favourable results, backed by a balanced portfolio, well-aligned operational structures and geographical spread give Santam a solid platform for profitable growth in future.

DECLARATION OF DIVIDEND (NUMBER 99)

Notice is hereby given that the board has declared a final dividend of 148 cents a share (2002: 105 cents). Shareholders are advised that the last day to trade "cum dividend" will be Thursday, 18 March 2004. The shares will trade "ex dividend" from the commencement of business on Friday, 19 March 2004. The record date will be Friday, 26 March 2004 and the payment date will be Monday, 29 March 2004. Certified shareholders may not dematerialise or rematerialise their shares between Friday, 19 March 2004 and Friday, 26 March 2004, both dates inclusive.

REVIEW BY AUDITORS

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

On behalf of the board

DK Smith
Chairman

SC Gilbert
Chief Executive

24 February 2004