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Reviewed Interim Report
Santam Limited Interim Report for the six months ended 30 June 2004
2004



Rus verseker

Nagesiende Tussentydse Verslag

Santam Beperk Tussentydse Verslag vir die ses maande geëindig 30 Junie 2004

2004

Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2004

Highlights

- *NET WRITTEN PREMIUM INCREASED BY 11%*
- *NET INSURANCE RESULT OF R667 MILLION*
- *181% INCREASE IN HEADLINE EARNINGS PER SHARE*
- *R940 MILLION IN CASH GENERATED BY OPERATING ACTIVITIES*

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

CV du Plessis (Acting)

SPONSOR

Investec Bank Limited

TRANSFER SECRETARIES

Computershare Investor Services 2004 (Pty) Ltd
70 Marshall Street, Johannesburg 2001
PO Box 61051, Marshalltown, 2107
Tel (011) 370 7700, Fax (011) 688 7721
<http://www.computershare.com>

SANTAM HEAD OFFICE AND REGISTERED ADDRESS

1 Sportica Crescent, Tyger Valley, Bellville 7530
PO Box 3881, Tyger Valley 7536
Tel (021) 915 7000, Fax (021) 914 0700
<http://www.santam.co.za>

ISIN ZAE000006854

JSE share code: SNT

NSX share code: SNM

Registration number 1918/001680/06

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Income statement

	Notes	Reviewed Six months ended 30 June 2004 R millions	Reviewed Six months ended 30 June 2003 R millions	% Change	Audited Year ended 31 December 2003 R millions
Gross written premium		4 414	4 387	I	9 513
Net written premium		3 690	3 325	II	7 022
Net earned premium		3 596	3 210		6 755
Claims incurred		1 997	2 173		4 375
Net commission		435	418		789
Management expenses		586	445		1 061
Underwriting result		578	174		530
Investment return on insurance funds		89	107		205
Net insurance result		667	281	137	735
Investment income	2	159	53	200	498
Income from associates		2	(4)		(12)
Goodwill		(32)	(12)		(37)
Income before taxation		796	318		1 184
Taxation	3	230	113		356
Income after taxation		566	205	176	828
Minority shareholders' interest		5	11		22
NET INCOME		561	194	189	806
		Cents	Cents		Cents
Earnings per share					
Earnings per share		490	173	183	718
Headline earnings per share	4	518	184	181	751
Dividends per share		95	72	32	220

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Balance sheet

	Reviewed As at 30 June 2004 R millions	Reviewed As at 30 June 2003 R millions	Audited As at 31 December 2003 R millions
ASSETS			
Non-current assets			
Property and equipment	69	64	70
Goodwill	76	107	109
Deferred taxation	17	23	14
Investments	3 832	3 338	3 835
Investments in associated companies	156	40	150
Investments	3 676	3 298	3 685
Technical assets	1 939	1 945	2 302
Current assets	4 769	3 830	4 379
Amounts due by debtors, reinsurers and outstanding premiums	926	1 167	1 176
Cash and cash equivalents	3 843	2 663	3 203
Total assets	10 702	9 307	10 709
EQUITY AND LIABILITIES			
Capital and reserves	4 353	3 420	3 956
Minority shareholders' interest	43	44	53
Deferred taxation	55	42	135
Technical provisions	4 963	4 580	5 156
Current liabilities and provisions	1 288	1 221	1 409
Total equity and liabilities	10 702	9 307	10 709
Number of shares in issue (millions)	114.9	112.2	113.6
Weighted average number of shares in issue (millions)	114.6	112.0	112.3
Net asset value per share (cents)	3 790	3 049	3 482
Solvency margin (%)	59	53	56

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Statement of changes in equity

	Reviewed As at 30 June 2004 R millions	Reviewed As at 30 June 2003 R millions	Audited As at 31 December 2003 R millions
Balance as at beginning of the period	3 956	3 375	3 375
Shares issued	31	7	39
Net income for the period	561	194	806
Translation difference on foreign entities	(26)	(39)	(66)
Dividends paid	(169)	(117)	(198)
Balance as at end of the period	4 353	3 420	3 956

Cash flow statement

	Reviewed Six months ended 30 June 2004 R millions	Reviewed Six months ended 30 June 2003 R millions	Audited Year ended 31 December 2003 R millions
Cash generated from operations	666	355	1 092
Income before taxation	796	318	1 184
Depreciation charge	11	8	22
Other non-cash adjustments	31	18	32
Total investment income	(248)	(159)	(703)
Change in working capital	76	170	557
Dividends and interest received	274	244	418
Cash generated by operating activities	940	599	1 510
Taxation paid	(144)	(75)	(233)
Dividends paid	(177)	(122)	(200)
Cash retained from operating activities	619	402	1 077
Cash utilised in net investment activities	62	72	(31)
Cash retained from operating and investment activities	681	474	1 046
Proceeds from ordinary shares issued	31	7	39
Investment in associated companies	(9)	(22)	(69)
Investment in subsidiaries	–	(408)	(408)
Cash acquired through acquisition of subsidiaries	–	391	406
Cash utilised in additions to fixed assets	(9)	(16)	(36)
Translation effect on cash	(54)	(35)	(47)
Cash generated for the period	640	391	931
Cash and cash equivalents at beginning of period	3 203	2 272	2 272
Cash and cash equivalents at end of period	3 843	2 663	3 203

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Segmental reporting

Geographical segments	Reviewed Six months ended 30 June 2004 R millions	Reviewed Six months ended 30 June 2003 R millions	Audited Year ended 31 December 2003 R millions	Reviewed Six months ended 30 June 2004 R millions	Reviewed Six months ended 30 June 2003 R millions	Audited Year ended 31 December 2003 R millions
Income statements						
Gross written premium						
Southern Africa	4 233	4 214	8 926	566	145	465
Europe & UK	181	173	587	12	29	65
	4 414	4 387	9 513	578	174	530
Underwriting results						
Balance sheets						
Total assets						
Southern Africa	9 679	8 230	9 446	5 698	5 176	5 894
Europe & UK	1 023	1 077	1 263	608	667	806
	10 702	9 307	10 709	6 306	5 843	6 700
Total liabilities						

Revenue analysis

Insurance class	Reviewed Six months ended 30 June 2004 R millions	Reviewed Six months ended 30 June 2003 R millions	Audited Year ended 31 December 2003 R millions	Reviewed Six months ended 30 June 2004 R millions	Reviewed Six months ended 30 June 2003 R millions	Audited Year ended 31 December 2003 R millions
Gross written premium						
Motor	1 987	1 856	3 773	257	84	177
Property	1 347	1 209	2 648	170	(8)	133
Liability	304	261	616	65	26	30
Crop	59	185	638	22	25	50
Miscellaneous	44	180	347	3	20	61
Engineering	172	168	352	36	3	22
Alternative risk	205	166	402	2	2	10
Transportation	127	143	282	12	8	13
Accident and health	133	122	253	5	—	6
Guarantee	36	97	202	6	14	28
	4 414	4 387	9 513	578	174	530
Underwriting results						

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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 2003.

Comparatives

The comparatives have been reclassified to include goodwill as part of income before taxation.

	Reviewed Six months ended 30 June 2004 R millions	Reviewed Six months ended 30 June 2003 R millions	Audited Year ended 31 December 2003 R millions
2. Investment income			
Interest	47	38	87
Dividends	83	76	151
Foreign exchange differences	7	(6)	(20)
Realised/Unrealised investment surpluses	42	(48)	289
Investment management fee	(20)	(7)	(9)
Investment income	159	53	498
3. Taxation			
Analysis of income tax			
Net insurance result	200	85	222
Investment income	16	14	121
Other	14	14	13
Tax	230	113	356
4. Headline earnings per share			
Net income	561	194	806
Goodwill	32	12	37
Headline earnings	593	206	843
Headline earnings per share (cents)	518	184	751
5. Net long-term rate of return adjustment			
Net income	561	194	806
Net long-term rate of return adjustment	74	139	(29)
Gross investment return	82	151	(79)
Tax	8	12	(50)
Pro forma earnings based on long-term rate of return	635	333	777
Pro forma earnings per share based on long-term rate of return (cents)	554	297	692
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	1 128	642	985
Long-term returns	1 259	869	1 042
Excess aggregate short-term fluctuations	131	227	57

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Comments

During the period under review, the South African short-term insurance industry experienced a continuation of favourable underwriting conditions. Santam's results for the six months were exceptional, with headline earnings increasing to R593 million.

Although total gross written premium was only marginally up from the corresponding period, premium growth for personal and commercial lines increased by 7.5%. Growth in the corporate market came under severe pressure as international players increased activity in the market, resulting in significant premium discounting. New entrants into the crop market, together with lower levels of insurance due to climatic conditions, hampered growth in this segment. Despite the strengthening of the rand against sterling, international gross written premiums increased by 4.7% compared to the corresponding period in 2003 (11.1% in GBP terms).

The level of reinsurance premiums reduced considerably, largely due to the company's strategy to retain more business at acceptable risk profiles. In addition, the slowing of crop and corporate business further contributed to the lower levels of reinsurance.

The largest factor contributing to the substantial increase in underwriting profits was the lower claims ratio experienced in southern Africa across most classes of insurance. The group's net claims ratio of 55.5% was 12.2% points lower than the equivalent period in 2003 due to favourable climatic conditions, a lower frequency of motor accidents as well as a reduction in theft claims.

On the international front, Westminster Motor Insurance Association is now in its second year of operation under the Santam umbrella. This business has performed satisfactorily, despite increased competition. Its net underwriting margin for the six months was adversely affected by an adjustment to reinsurance provisions.

Management expenses increased, due to, inter alia, higher performance bonuses and fees paid to administrators.

Continued focus on cash and working capital management yielded positive results, with the float (funds generated by insurance activities) up 10% from 31 December 2003. However, lower interest rates negated the positive effect of the higher float level, causing investment income on insurance funds to decrease by 17%.

The combined effect of all insurance activities resulted in a net insurance margin of 18.5% against 8.7% for the corresponding period.

The equity market continued its bull run for the first two months of 2004, but moved sideways for the remainder of the reporting period. This, coupled with healthy increases in interest and dividend income, resulted in a 200% increase in total investment income from 2003 levels.

The favourable underwriting result and investment income impacted positively on headline earnings per share which improved by 181% to 518 cps.

As a result of increased profitability, cash generated by operating activities totalled R940 million, an increase of 57% from 2003. The solvency level increased from 56% at the end of 2003 to 59%.

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 half year.

PROSPECTS

It is anticipated that underwriting margins could come under pressure during the second half of 2004 due to increased competition and the likely normalisation of claims.

The board is pleased to announce that the Irish regulatory body (IFSRA) granted a short-term insurance licence to Santam Europe in July, which will, inter alia, underwrite the future business generated by Bluesure. It paves the way for Santam to gradually advance with its strategy of marketing and underwriting the Multiplex insurance concept in the UK and Europe.

Although the company continually assesses its capital requirement, there is currently a specific focus on this aspect, considering the changes in, inter alia, reinsurance arrangements and our international expansion initiatives. We are well advanced with an extensive exercise to determine desired capital levels for the company's combined underwriting and investment risk, with a view to optimising growth, business prospects and shareholder return at acceptable risk profiles. This will be completed during the next few months, after which the board will consider appropriate actions where necessary.

Anticipated low interest rates for the remainder of 2004 will continue to have an adverse effect on cash portfolio investment returns. The direction of equity markets looks rather undecided, but with a firm first half performance as a base, the board remains cautiously optimistic regarding prospects for the remainder of the year.

DECLARATION OF DIVIDEND (NUMBER 100)

Notice is hereby given that the board has declared an interim dividend of 95 cents a share (2003: 72 cents). Shareholders are advised that the last day to trade "cum dividend" will be Thursday, 16 September 2004. The shares will trade "ex dividend" from the commencement of business on Friday, 17 September 2004. The record date will be Thursday, 23 September 2004, and the payment date will be Monday, 27 September 2004. Shareholders may not dematerialise or rematerialise their shares between Friday, 17 September 2004, and Thursday, 23 September 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 August 2004