



Rest insured

HIGHLIGHTS

- Return on capital of 37%
- Net written premium increased by 12%
- Net insurance result of R1.4 billion
- 107% increase in headline earnings per share
- R2.1 billion cash generated by operating activities
- Return excess capital of R10 per share

INCOME STATEMENT		Reviewed Year ended 31 December 2004 R million	Audited Year ended 31 December 2003 R million	% Change
Notes				
Gross written premium		9 735	9 513	2
Net written premium		7 843	7 022	12
Net earned premium		7 719	6 755	14
Claims incurred		4 397	4 375	
Net commission		942	789	
Management expenses		1 214	1 061	
Underwriting result		1 166	530	120
Investment return on insurance funds		203	205	
Net insurance result		1 369	735	86
Investment income	2	1 022	498	105
Income from associates		56	(12)	
Goodwill		(49)	(37)	
Income before taxation		2 398	1 184	103
Taxation	3	615	356	
Income after taxation		1 783	828	115
Minority shareholders' interest		24	22	
Income attributable to cell owners		25	–	
Net Income		1 734	806	115
Earnings per share		Cents	Cents	
Earnings per share	4	1 513	718	111
Headline earnings per share		1 556	751	107
Diluted earnings per share		1 492	708	111
Diluted headline earnings per share		1 534	741	107
Dividend per share		290	220	32

BALANCE SHEET

	Reviewed As at 31 December 2004 R million	Audited As at 31 December 2003 R million
ASSETS		
Non-current assets		
Property and equipment	55	70
Goodwill	63	109
Deferred taxation	10	14
Investments	5 414	3 835
Investment in associated companies	209	150
Investments	5 205	3 685
Technical assets	1 980	2 302
Current assets	5 007	4 379
Amounts due by debtors, reinsurers and outstanding premiums	1 080	1 176
Cash and cash equivalents	3 927	3 203
Total assets	12 529	10 709
EQUITY AND LIABILITIES		
Capital and reserves	5 405	3 956
Minority shareholders' interest	60	53
Cell owners' interest	47	–
Non-current liabilities	164	135
Technical provisions	5 198	5 156
Current liabilities and provisions	1 655	1 409
Total equity and liabilities	12 529	10 709
Number of shares in issue (millions)	115.2	113.6
Weighted average number of shares in issue (millions)	114.6	112.3
Net asset value per share (cents)	4 692	3 482
Solvency margin (%)	69	56

STATEMENT OF CHANGES IN EQUITY

	Reviewed As at 31 December 2004 R million	Audited As at 31 December 2003 R million
Balance as at beginning of year	3 956	3 375
Shares issued	41	39
Net income for the period	1 734	806
Translation difference	(48)	(66)
Dividends paid	(278)	(198)
Balance as at end of year	5 405	3 956

CASH FLOW STATEMENT

	Reviewed Year ended 31 December 2004 R million	Audited Year ended 31 December 2003 R million
Cash generated from operations	1 682	1 092
Income before taxation	2 398	1 184
Depreciation charge	25	22
Other non-cash adjustments	(6)	32
Total investment income	(1 225)	(703)
Change in working capital	490	557
Dividends and interest received	449	418
Cash generated by operating activities	2 131	1 510
Taxation paid	(372)	(233)
Dividends paid	(296)	(200)
Cash retained from operating activities	1 463	1 077
Cash utilised in net investment activities	(714)	(31)
Cash retained from operating and investment activities	749	1 046
Proceeds from ordinary shares issued	41	39
Proceeds from disposal of associated companies	8	–
Investment in associated companies	(37)	(69)
Proceeds from disposal of interest in subsidiary	9	–
Investment in subsidiaries	–	(408)
Cash acquired through acquisition of subsidiaries	–	406
Cash utilised in additions to fixed assets	(12)	(36)
Translation effect on cash	(34)	(47)
Cash generated for the year	724	931
Cash and cash equivalents at beginning of year	3 203	2 272
Cash and cash equivalents at end of year	3 927	3 203

SEGMENTAL REPORTING

Geographical segments	Reviewed Year ended 31 December 2004 R million	Audited Year ended 31 December 2003 R million	Reviewed Year ended 31 December 2004 R million	Audited Year ended 31 December 2003 R million
Income statement			Underwriting result	
Southern Africa	9 171	8 926	1 141	465
Europe & UK	564	587	25	65
	9 735	9 513	1 166	530
Total assets			Total liabilities	
Southern Africa	11 215	9 446	6 323	5 894
Europe & UK	1 314	1 263	693	806
	12 529	10 709	7 017	6 700

REVENUE ANALYSIS

	Reviewed Year ended 31 December 2004 R million	Audited Year ended 31 December 2003 R million	Reviewed Year ended 31 December 2004 R million	Audited Year ended 31 December 2003 R million
Gross written premium			Underwriting result	
Insurance class				
Motor	4 085	3 773	498	177
Property	3 022	2 648	309	133
Liability	633	616	122	30
Crop	380	638	20	50
Miscellaneous	132	347	34	61
Engineering	380	352	86	22
Alternative risk	475	402	38	10
Transportation	255	282	47	13
Accident and health	282	253	1	6
Guarantee	91	202	11	28
	9 735	9 513	1 166	530

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 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, except for the adoption of AC501 with regard to deferred tax on STC credits.

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

	Reviewed Year ended 31 December 2004 R million	Audited Year ended 31 December 2003 R million
2. INVESTMENT INCOME		
Interest	94	87
Dividends	167	151
Foreign exchange differences	5	(18)
Realised/Unrealised investment surpluses	797	289
Investment management fee	(41)	(11)
Investment income	1 022	498
3. TAXATION		
Analysis of income tax		
Net insurance result	412	222
Investment income	174	121
Other	29	13
Tax	615	356
4. HEADLINE EARNINGS PER SHARE		
Net income	1 734	806
Goodwill	49	37
Headline earnings	1 783	843
Headline earnings per share (cents)	1 556	751
5. NET LONG-TERM RATE OF RETURN ADJUSTMENT		
Net income	1 734	806
Net long-term rate of return adjustment	(437)	(29)
Gross investment return	(543)	(79)
Tax	106	50
Pro forma earnings based on long-term rate of return	1 297	777
Pro forma earnings per share based on long-term rate of return (cents)	1 132	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	1 838	985
Long-term returns	1 458	1 042
Excess aggregate short-term fluctuations	(380)	57

COMMENTS

The past year proved to be one of the most favourable underwriting years in the history of the South African short-term insurance industry. Santam delivered its strongest set of financial results ever, with headline earnings increasing to R1.78 billion, which is more than double the amount for 2003.

Despite marginal growth in gross written premium, net written premium increased by 12 percent as a result of further optimisation of Santam's reinsurance programme. Growth in the corporate market came under pressure due to increased capacity at significantly reduced rates. New entrants to the crop insurance market, together with lower levels of insurance due to climatic conditions and lower crop prices, hampered growth in this area. Although international premium income was on par with 2003 in GBP terms, the strong rand depressed the levels reported.

The low claims ratios experienced in southern Africa across most classes of insurance were the biggest contributor to the group's favourable underwriting results. The group's net claims ratio of 57 percent was 7.8 percentage points lower than in 2003 mainly due to benign weather patterns, the absence of catastrophes, a lower frequency of motor accident claims, a reduction in theft claims, and fewer man-made disasters.

The company continued its strategy to retain more business at acceptable risk profiles. Consequently, the level of reinsurance premiums declined to 19.4 percent of gross written premiums from 26.2 percent in 2003. Optimising reinsurance spend remains a focus area for the future.

On the international front, Westminster Motor Insurance Association ended its second year as part of the Santam Group on a sound note. Despite increased competition, Westminster maintained high levels of profitability, and achieved a net underwriting margin of 12.5 percent. Prospects for Santam Europe, which commenced business in October 2004, are encouraging. Bluesure's entry into the UK insurance market took longer than anticipated and, following Santam Europe's registration, business started flowing towards the end of the year.

The combined effect of all insurance activities resulted in a net insurance margin of 17.7 percent against 10.9 percent for 2003.

Despite lower interest rates for 2004, the investment return on insurance funds was in line with returns achieved in 2003. This was primarily attributable to a continued focus on cash and working capital management, which resulted in the 31 percent higher average float level (funds generated by insurance activities).

The strong performance of the local equity market during the second half of the year, in particular the financial and industrial sectors, contributed towards the 105 percent increase in investment income. Equity earnings from associated companies were also significantly higher in 2004 due to good earnings from Credit Guarantee Insurance Corporation of Africa Ltd and Lion of Africa Ltd.

Headline earnings per share improved by 107 percent to 1556 cps based on the favourable underwriting results and higher investment return.

Cash generated by operating activities exceeded R2.1 billion, up by 41 percent from 2003, as a result of increased profitability and improved working capital management. The group solvency level increased from 56 percent at the end of 2003 to 69 percent for the year under review.

As reported in our interim results, Santam embarked on an extensive exercise in 2004 to increase its capital efficiency in order to optimise return to shareholders. For this purpose, Santam's optimal levels of capital were determined, taking into account the combined underwriting and investment risk profile and business

growth opportunities. As Santam's solvency margin at year-end is far in excess of its optimal risk adjusted capital requirements, the board approved the return of excess capital of R1.15 billion to shareholders, translating in a payment of R10 per share. The capital reduction is subject to shareholder and regulatory approval.

The board would like to extend its thanks to Santam's management, staff, brokers, and other business partners for their efforts and contributions during this year.

PROSPECTS

The year under review was an exceptional one for Santam. Although we expect a more normal claims pattern and keener pricing in 2005, factors such as the strong underwriting cycle, the positive economic and financial outlook for South Africa, as well as Santam's history of successful risk management point to continued firm performance.

In 2005 Santam will focus specifically on growing its market share without compromising sustainable profitability. The company is in the process of redefining its long-term strategy in order to remain the dominant player in the South African short-term insurance market.

The international businesses will remain focussed on ensuring that operations yield profitable results and the required return on capital.

Anticipated low interest rates in 2005 will continue to dampen returns on cash-related investment. However, indications are that equity markets will remain firm, delivering good returns over the next period.

DECLARATION OF NORMAL DIVIDEND (NUMBER 101)

Notice is hereby given that the board has declared a final dividend of 195 cents a share (2003: 148 cents). Shareholders are advised that the last day to trade "cum dividend" will be Friday, 11 March 2005. The shares will trade "ex dividend" from the commencement of business on Monday, 14 March 2005. The record date will be Friday, 18 March 2005 and the payment date will be Tuesday, 22 March 2005. Certificated shareholders may not dematerialise or rematerialise their shares between Monday, 14 March 2005, and Friday, 18 March 2005, both dates inclusive.

PROPOSED CASH PAYMENT TO SHAREHOLDERS

Notice is hereby given that the board has approved a cash payment of 1000 cents per share to shareholders by way of a reduction of Santam's stated capital account. The proposed cash payment is subject to the passing of a special resolution at a meeting of shareholders and regulatory approval. A circular containing full details of the proposed cash payment is currently being prepared and will be posted to Santam shareholders on or about Friday, 4 March 2005. Shareholders are advised of the following anticipated dates in respect of the proposed payment:

Last day to trade "cum proposed payment" Friday, 8 April 2005. Santam shares trade "ex proposed payment" Monday, 11 April 2005, with record date Friday, 15 April 2005 and payment date Monday, 18 April 2005.

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

22 February 2005

SC GILBERT
Chief executive

COMPANY SECRETARY

Sana-Ullah Bray

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