



2005

*Santam Limited and its subsidiaries*

**Reviewed Interim Report**

*for the six months ended 30 June 2005*

*and*

**Transition to International Financial  
Reporting Standards  
("IFRS")**

*Restatement of financial information for the year ended 31 December 2004*

*and the six months ended 30 June 2004*

*under International Financial Reporting Standards ("IFRS")*



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The financial statements for the six months ended 30 June 2005 were prepared in accordance with International Financial Reporting Standards (“IFRS”) IAS 34 – Interim Reporting and in compliance with the Listing Requirements of the JSE Limited.

These are the group’s first IFRS condensed interim financial statements for part of the period for which annual financial statements will be prepared in terms of IFRS. IFRS 1 – First-time Adoption of International Financial Reporting Standards has been applied and for detail on the adjustments, refer to the separate Transitional Report.



## **Reviewed Interim Report**

**for the six months ended 30 June 2005**

### **Highlights**

- Return on capital of 27%
- Gross written premium increased by 14%
- Net insurance result of R532 m
- 16% increase in headline earnings per share
- R1,4 billion cash generated by operations

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

## Consolidated balance sheets

	Notes	Reviewed At 30 June 2005 R million	Restated Reviewed At 30 June 2004 R million	Restated Audited At 31 December 2004 R million
<b>ASSETS</b>				
<b>Non-Current Assets</b>				
Property and equipment		51	69	55
Goodwill		86	88	87
Deferred income tax		16	17	10
Investments in associates		228	173	230
Financial assets				
Equity securities:				
– at fair value through income	3	3 837	2 774	3 574
Debt securities:				
– at fair value through income	3	1 209	883	1 613
<b>Current assets</b>				
Reinsurance contracts		1 704	1 812	1 833
Deferred acquisition costs		160	129	146
Loans and receivables including insurance receivables		1 159	944	1 098
Cash and cash equivalents		3 984	3 843	3 927
<b>Total assets</b>		<b>12 434</b>	<b>10 732</b>	<b>12 573</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to the company's equity holders</b>				
Share capital		37	1 161	1 171
Other reserves		731	593	636
Distributable reserves		4 072	2 630	3 642
		<b>4 840</b>	<b>4 384</b>	<b>5 449</b>
<b>Minority interest</b>		<b>63</b>	<b>43</b>	<b>60</b>
<b>Total equity</b>		<b>4 903</b>	<b>4 427</b>	<b>5 509</b>
<b>LIABILITIES</b>				
<b>Non-Current liabilities</b>				
Cell owners' interest		86	–	47
Deferred income tax		196	55	160
<b>Current liabilities</b>				
Insurance contracts		5 549	4 873	5 083
Deferred reinsurance acquisition revenue		83	90	115
Financial liabilities				
– at fair value through income		–	–	4
Provisions for other liabilities and charges		141	46	113
Trade and other payables		1 296	904	1 161
Current income tax liabilities		180	337	381
<b>Total liabilities</b>		<b>7 531</b>	<b>6 305</b>	<b>7 064</b>
<b>Total shareholders' equity and liabilities</b>		<b>12 434</b>	<b>10 732</b>	<b>12 573</b>

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

## Consolidated income statements

	Notes	Reviewed Six months ended 30 June 2005 R million	Restated Reviewed Six months ended 30 June 2004 R million	% Change	Restated Audited Year ended 31 December 2004 R million
<b>Gross written premium</b>		<b>5 034</b>	<b>4 414</b>	<b>14</b>	<b>9 735</b>
Less: reinsurance premium		<b>703</b>	<b>724</b>		<b>1 892</b>
<b>Net premium</b>		<b>4 331</b>	<b>3 690</b>	<b>17</b>	<b>7 843</b>
Less: change in unearned premium					
Gross amount		<b>7</b>	<b>(90)</b>		<b>(102)</b>
Reinsurers' share		<b>(185)</b>	<b>(184)</b>		<b>(226)</b>
<b>Net insurance premium revenue</b>		<b>4 139</b>	<b>3 596</b>	<b>15</b>	<b>7 719</b>
Investment income	4	<b>256</b>	<b>220</b>	<b>16</b>	<b>477</b>
Income from reinsurance contracts ceded		<b>190</b>	<b>245</b>		<b>487</b>
Net realised gains on financial assets		<b>151</b>	<b>77</b>		<b>202</b>
Net fair value gains on assets at fair value through income		<b>92</b>	<b>(35)</b>		<b>596</b>
Other operating income		<b>17</b>	<b>7</b>		<b>5</b>
<b>Net income</b>		<b>4 845</b>	<b>4 110</b>	<b>18</b>	<b>9 486</b>
Insurance claims and loss adjustment expenses		<b>2 980</b>	<b>2 251</b>		<b>5 015</b>
Insurance claims and loss adjustment expenses recovered from reinsurers		<b>(316)</b>	<b>(254)</b>		<b>(618)</b>
<b>Net insurance benefits and claims</b>		<b>2 664</b>	<b>1 997</b>	<b>33</b>	<b>4 397</b>
Expenses for the acquisition of insurance contracts		<b>749</b>	<b>680</b>		<b>1 429</b>
Expenses for marketing and administration		<b>504</b>	<b>590</b>		<b>1 222</b>
Expenses for asset management services rendered		<b>16</b>	<b>21</b>		<b>41</b>
Goodwill impairment		<b>–</b>	<b>1</b>		<b>2</b>
<b>Expenses</b>		<b>3 933</b>	<b>3 289</b>	<b>20</b>	<b>7 091</b>
<b>Results of operating activities</b>		<b>912</b>	<b>821</b>		<b>2 395</b>
Finance costs		<b>(14)</b>	<b>–</b>		<b>(14)</b>
Share of profit/(loss) of associates		<b>44</b>	<b>(17)</b>		<b>37</b>
Cell owners' interest		<b>(23)</b>	<b>–</b>		<b>(25)</b>
<b>Profit before tax</b>		<b>919</b>	<b>804</b>	<b>14</b>	<b>2 393</b>
Income tax expense	5	<b>(213)</b>	<b>(230)</b>		<b>(615)</b>
<b>Profit for the year</b>		<b>706</b>	<b>574</b>	<b>23</b>	<b>1 778</b>
<b>Attributable to:</b>					
– equity holders of the Company		<b>694</b>	<b>569</b>		<b>1 754</b>
– minority interest		<b>12</b>	<b>5</b>		<b>24</b>
		<b>706</b>	<b>574</b>		<b>1 778</b>
<b>Earnings attributable to equity shareholders</b>					
		<b>cents</b>	<b>cents</b>	<b>% change</b>	<b>cents</b>
<b>Earnings per share</b>	6				
Basic earnings per share		<b>599</b>	<b>497</b>	<b>21</b>	<b>1 531</b>
Diluted earnings per share		<b>586</b>	<b>490</b>	<b>20</b>	<b>1 509</b>
Headline earnings per share		<b>599</b>	<b>514</b>	<b>17</b>	<b>1 549</b>
Diluted headline earnings per share		<b>586</b>	<b>507</b>	<b>16</b>	<b>1 528</b>
<b>Weighted average number of shares – million</b>		<b>115.8</b>	<b>114.6</b>		<b>114.6</b>

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

## Consolidated statement of changes in equity

	Attributable to equity holders of the Company				Total
	Share Capital R million	Other reserves R million	Distributable reserves R million	Minority interest R million	R million
<b>Balance at 1 January 2004 – restated</b>	1 130	577	2 267	53	<b>4 027</b>
Share issue	41				<b>41</b>
Retained income for the period			1 754	24	<b>1 778</b>
Transfer to reserves		109	(109)		<b>–</b>
Share-based payments			8		<b>8</b>
Currency translation differences		(50)			<b>(50)</b>
Dividends paid			(278)	(18)	<b>(296)</b>
Additional interest acquired by minorities				1	<b>1</b>
<b>Balance as at 31 December 2004 – restated</b>	<b>1 171</b>	<b>636</b>	<b>3 642</b>	<b>60</b>	<b>5 509</b>
Share issue	22				<b>22</b>
Return of surplus capital	(1 156)				<b>(1 156)</b>
Retained income for the period			694	12	<b>706</b>
Transfer to reserves		41	(41)		<b>–</b>
Share-based payments			5		<b>5</b>
Currency translation differences		54			<b>54</b>
Dividends paid			(228)	(9)	<b>(237)</b>
<b>Balance as at 30 June 2005</b>	<b>37</b>	<b>731</b>	<b>4 072</b>	<b>63</b>	<b>4 903</b>
<b>Balance at 1 January 2004 – restated</b>	1 130	577	2 267	53	<b>4 027</b>
Share issue	31				<b>31</b>
Retained income for the period			569	5	<b>574</b>
Transfer to reserves		41	(43)		<b>(2)</b>
Share-based payments			6		<b>6</b>
Currency translation differences		(25)			<b>(25)</b>
Dividends paid			(169)	(15)	<b>(184)</b>
<b>Balance as at 30 June 2004 – restated</b>	<b>1 161</b>	<b>593</b>	<b>2 630</b>	<b>43</b>	<b>4 427</b>

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

## Consolidated cash flow statement

	Notes	Reviewed Six months ended 30 June 2005 R million	Restated Reviewed Six months ended 30 June 2004 R million	Restated Audited Year ended 31 December 2004 R million
Cash generated from operations		1 399	940	2 139
Interest paid		(14)	—	(8)
Income tax paid		(384)	(144)	(372)
<b>Net cash from operating activities</b>		<b>1 001</b>	<b>796</b>	<b>1 759</b>
<b>Cash flows from investing activities</b>				
Cash utilised in investment activities		364	62	(714)
Purchases of property, plant and equipment		—	(9)	(21)
Proceeds from sale of property, plant and equipment		3	—	9
Acquisition of associated companies		—	(9)	(37)
Proceeds from sale of associated companies		5	—	8
Proceeds from sale of subsidiary		—	—	9
<b>Net cash from investing activities</b>		<b>372</b>	<b>44</b>	<b>(746)</b>
<b>Cash flows from financing activities</b>				
Proceeds from issuance of ordinary shares		22	31	41
Return of surplus capital to shareholders		(1 156)	—	—
Proceeds from preference shares issued to cell owners		17	—	—
Dividends paid to Company's shareholders		(237)	(177)	(296)
<b>Net cash used in financing activities</b>		<b>(1 354)</b>	<b>(146)</b>	<b>(255)</b>
<b>Net increase in cash and cash equivalents</b>		<b>19</b>	<b>694</b>	<b>758</b>
Cash and cash equivalents at beginning of period		3 927	3 203	3 203
Exchange gains/(losses) on cash and cash equivalents		38	(54)	(34)
<b>Cash and cash equivalents at end of period</b>		<b>3 984</b>	<b>3 843</b>	<b>3 927</b>

**Notes to the consolidated financial statements**

**I. BASIS OF PRESENTATION AND ACCOUNTING POLICIES**

The financial statements for the six months ended 30 June 2005 were prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 – Interim Financial Reporting and in compliance with the Listing Requirements of the JSE Limited. These are the group's first IFRS condensed interim financial statements for part of the period for which annual financial statements will be prepared in terms of IFRS. IFRS 1 – First-time Adoption of International Financial Reporting Standards has been applied and for detail on the adjustments, refer to the separate Transitional Report. The condensed interim financial statements do not include all of the information required by IFRS for full annual financial statements.

The first time application of IFRS 4 – Insurance contracts, did not have any significant impact on the recognition and measurement of assets and liabilities in respect of insurance contracts at 30 June 2005, but a summary split of the underwriting and investment activities are reflected in the segment report. The group's comprehensive consolidated financial statements for the year ending 31 December 2005 will present the additional disclosure required by IFRS 4.

The principal policies used in the preparation of the results for the period ended 30 June 2005 are consistent with those applied for the year ended 31 December 2004 and for the results for the six months ended 30 June 2004 in terms of IFRS.

The group operates an insurance subsidiary, which offers cell captive facilities to clients. The cell activity, which is not material, is consolidated on a line-by-line basis in the Balance sheets and Income statements, but excluded from group earnings and capital and reserves attributable to equity holders. Currently the short-term insurance industry is in discussion with SAICA on the accounting treatment of cell activity in the insurers records. Until the issue has been clarified, Santam will continue with its current accounting policy on cell activity.

The historical accounting and interpretation in South Africa of AC105/IAS17 – Operating Lease costs, has not been in line with international interpretation and application. Interpretive guidance by the Accounting Practice Committee of the South African Institute of Chartered Accountants – Circular 7/2005 issued on 2 August 2005, required minimum lease payments, which are subject to a fixed rate escalation, to be spread over the life of the lease, with the escalation not to be accounted for in the year of occurrence. Santam is in the process of assessing the materiality of any adjustment in terms of this requirement, and does not expect this adjustment to materially affect the current reported results. The impact on opening shareholders' equity is presently being assessed and, should this be material, the group will inform the market.



# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

<b>2. SEGMENTAL REPORT</b>	<b>Gross written premium</b>	<b>Underwriting result</b>	<b>Total assets</b>	<b>Total liabilities</b>
Prepared in accordance with IFRS	<b>R million</b>	<b>R million</b>	<b>R million</b>	<b>R million</b>
<b>For the six months ended 30 June 2005</b>				

## 2.1 Insurance class

Accident and health	153	14	37	110
Alternative risk	264	41	134	868
Crop	87	27	50	60
Engineering	202	33	234	332
Guarantee	39	13	99	103
Liability	327	46	632	955
Miscellaneous	44	2	83	128
Motor	2 215	177	111	1 531
Property	1 564	26	434	1 396
Transportation	139	33	51	149
Unallocated			10 569	1 899
<b>TOTAL</b>	<b>5 034</b>	<b>412</b>	<b>12 434</b>	<b>7 531</b>

## 2.2 Geographical

Southern Africa	4 790	431	10 859	6 652
UK & Europe	244	(19)	1 575	879
<b>TOTAL</b>	<b>5 034</b>	<b>412</b>	<b>12 434</b>	<b>7 531</b>

## 2.3 Business activity

	<b>Insurance activities</b>	<b>Investment activities</b>	<b>Total</b>
	<b>R million</b>	<b>R million</b>	<b>R million</b>
Gross written premium	5 034		5 034
Net written premium	4 331		4 331
Net earned premium	4 139		4 139
Claims incurred	2 664		2 664
Net commission	559		559
Management expenses	504		504
Underwriting result	412	–	412
Investment return on insurance funds	120		120
Net insurance result	532	–	532
Investment income net of management fee		366	366
Income from associates		44	44
Cell owners interest	(23)		(23)
<b>Income before taxation</b>	<b>509</b>	<b>410</b>	<b>919</b>
<b>Total assets</b>	<b>7 074</b>	<b>5 360</b>	<b>12 434</b>
<b>Total liabilities</b>	<b>7 531</b>	<b>–</b>	<b>7 531</b>

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

2. SEGMENTAL REPORT (continued)		Gross written premium	Underwriting result	Total assets	Total liabilities
For the six months ended 30 June 2004		R million	R million	R million	R million
<b>2.1 Insurance class</b>					
Accident and health		133	5	40	104
Alternative risk		205	2	235	944
Crop		59	22	106	132
Engineering		172	36	118	194
Guarantee		36	6	82	82
Liability		304	65	656	890
Miscellaneous		44	3	82	119
Motor		1 987	257	135	1 241
Property		1 347	170	413	1 092
Transportation		127	12	72	164
Unallocated			(4)	8 793	1 343
<b>TOTAL</b>		<b>4 414</b>	<b>574</b>	<b>10 732</b>	<b>6 305</b>
<b>2.2 Geographical</b>					
Southern Africa		4 233	562	9 709	5 697
UK & Europe		181	12	1 023	608
<b>TOTAL</b>		<b>4 414</b>	<b>574</b>	<b>10 732</b>	<b>6 305</b>
<b>2.3 Business activity</b>					
		<b>Insurance activities</b>	<b>Investment activities</b>	<b>Total</b>	
		<b>R million</b>	<b>R million</b>	<b>R million</b>	
Gross written premium		4 414			4 414
Net written premium		3 690			3 690
Net earned premium		3 596			3 596
Claims incurred		1 997			1 997
Net commission		435			435
Management expenses		590			590
Underwriting result		574	–		574
Investment return on insurance funds		89			89
Net insurance result		663	–		663
Investment income net of management fee			159		159
Income from associates			(17)		(17)
Goodwill impairment			(1)		(1)
<b>Income before taxation</b>		<b>663</b>	<b>141</b>		<b>804</b>
<b>Total assets</b>		<b>6 814</b>	<b>3 918</b>		<b>10 732</b>
<b>Total liabilities</b>		<b>6 305</b>	<b>–</b>		<b>6 305</b>

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

For the year ended 31 December 2004	Gross written premium R million	Underwriting result R million	Total assets R million	Total liabilities R million
<b>2.1 Insurance class</b>				
Accident and health	282	1	39	100
Alternative risk	475	38	115	802
Crop	380	20	238	312
Engineering	380	86	242	321
Guarantee	91	11	97	96
Liability	633	122	630	905
Miscellaneous	132	34	90	133
Motor	4 085	498	110	1 266
Property	3 022	309	375	1 131
Transportation	255	47	46	132
Unallocated		(8)	10 591	1 866
<b>TOTAL</b>	<b>9 735</b>	<b>1 158</b>	<b>12 573</b>	<b>7 064</b>
<b>2.2 Geographical</b>				
Southern Africa	9 171	1 132	11 259	6 371
UK & Europe	564	26	1 314	693
<b>TOTAL</b>	<b>9 735</b>	<b>1 158</b>	<b>12 573</b>	<b>7 064</b>
<b>2.3 Business activity</b>				
	<b>Insurance activities R million</b>	<b>Investment activities R million</b>	<b>Total R million</b>	
Gross written premium	9 735			9 735
Net written premium	7 843			7 843
Net earned premium	7 719			7 719
Claims incurred	4 397			4 397
Net commission	942			942
Management expenses	1 222			1 222
Underwriting result	1 158	–		1 158
Investment return on insurance funds	203			203
Net insurance result	1 361	–		1 361
Investment income net of management fee		1 022		1 022
Income from associates		37		37
Goodwill impairment		(2)		(2)
Cell owners interest	(25)			(25)
<b>Income before taxation</b>	<b>1 336</b>	<b>1 057</b>		<b>2 393</b>
<b>Total assets</b>	<b>7 069</b>		<b>5 504</b>	<b>12 573</b>
<b>Total liabilities</b>	<b>7 064</b>		<b>–</b>	<b>7 064</b>

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

	Reviewed At 30 June 2005 R million	Restated Reviewed At 30 June 2004 R million	Restated Audited At 31 December 2004 R million
<b>3. FINANCIAL ASSETS</b>			
The Group's financial assets are summarised below by measurement category.			
Fair value through income	5 046	3 657	5 187
Loans and receivables	1 159	944	1 098
<b>Total financial assets</b>	<b>6 205</b>	<b>4 601</b>	<b>6 285</b>
<b>Financial assets at fair value through income</b>			
Equity securities:			
– listed	3 312	2 222	3 004
– unlisted	525	552	570
	<b>3 837</b>	<b>2 774</b>	<b>3 574</b>
Debt securities – fixed interest rate:			
– government bonds	1 114	801	1 537
– unlisted	95	82	76
	<b>1 209</b>	<b>883</b>	<b>1 613</b>
<b>Total financial assets at fair value through income</b>	<b>5 046</b>	<b>3 657</b>	<b>5 187</b>
<b>4. INVESTMENT INCOME</b>			
At fair value through income			
– dividend income	97	83	167
– interest income	159	137	310
	<b>256</b>	<b>220</b>	<b>477</b>
<b>5. INCOME TAX EXPENSE</b>			
South African normal taxation			
Current year	168	302	505
Current	142	289	486
Other taxes	26	13	19
Prior year	2	(1)	61
Foreign taxation			
Current year	16	11	22
Prior year	2	–	(2)
Income taxation for the year	<b>188</b>	<b>312</b>	<b>586</b>
Deferred taxation	<b>25</b>	<b>(82)</b>	<b>29</b>
Current year	<b>29</b>	<b>(82)</b>	<b>88</b>
Prior year	<b>(4)</b>	<b>–</b>	<b>(59)</b>
<b>Total taxation as per the Income Statement</b>	<b>213</b>	<b>230</b>	<b>615</b>

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

	Reviewed Six months ended 30 June 2005	Restated Reviewed Six months ended 30 June 2004	Restated Audited Year ended 31 December 2004
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## 6. EARNINGS PER SHARE

### **Basic earnings per share**

Profit attributable to the Company's equity holders (R million)	<b>694</b>	569	1 754
Weighted average number of ordinary shares in issue (million)	<b>115.8</b>	114.6	114.6
Earnings per share (cents)	<b>599</b>	497	1 531

### **Diluted earnings per share**

Profit attributable to the Company's equity holders (R million)	<b>694</b>	569	1 754
Weighted average number of ordinary shares in issue (million)	<b>115.8</b>	114.6	114.6
Adjusted for share-options	<b>2.6</b>	1.6	1.6
Weighted average number of ordinary shares for diluted earnings per share (million)	<b>118.4</b>	116.2	116.2
Diluted basic earnings per share (cents)	<b>586</b>	490	1 509

### **Headline earnings per share**

Profit attributable to the Company's equity holders (R million)	<b>694</b>	569	1 754
Adjust for:			
Impairment of goodwill in subsidiaries	–	1	2
Impairment of goodwill in associates	–	19	20
Headline earnings (R million)	<b>694</b>	589	1 776
Weighted average number of ordinary shares in issue (million)	<b>115.8</b>	114.6	114.6
Headline earnings per share (cents)	<b>599</b>	514	1 549

### **Diluted headline earnings per share**

Headline earnings (R million)	<b>694</b>	589	1 776
Weighted average number of ordinary shares for diluted earnings per share (million)	<b>118.4</b>	116.2	116.2
Diluted headline earnings per share (cents)	<b>586</b>	507	1 528

## **Santam Limited and its Subsidiaries**

*Reviewed Interim Report for the six months ended 30 June 2005*

### **COMMENTS**

Santam continued to achieve very pleasing underwriting results in a short-term insurance environment that normalised considerably during the first half of 2005. Headline earnings for the six months increased by 17.8 percent to R694 million, whilst headline earnings per share improved by 16.5 percent to 599 cps, predominantly due to the company's strong investment results on the back of firm equity markets.

Growing market share without compromising profitability was set as a target in 2005. The group exceeded expectations for the first six months of the year by achieving 14 percent growth in gross premiums, whilst still achieving margins that were above the industry average. On the local front, positive growth was experienced across all classes of business. On a net written premium level, the growth was even higher at 17 percent as the benefits of the refinement of Santam's reinsurance programme continued to have an effect. International premiums were 34 percent up as Santam Europe commenced business. Westminster managed 8 percent premium growth in GBP terms.

The company experienced a sharp increase in claims in the personal and commercial lines of business. The group's net claims ratio of 64 percent was 9 percentage points higher compared to the first half of 2004, mainly due to adverse weather conditions, higher than normal fire-related incidents and man-made disasters. This was evident mostly in the property, motor and personal line classes. Generally, the specialist underwriting business classes experienced a very good six months.

In line with the company's ongoing strategy of retaining more business at acceptable risk profiles, the level of reinsurance premiums declined to 14 percent of gross written premiums against the 16.3 percent for the equivalent period in 2004. Optimising reinsurance spend remains a focus area for the future.

On the international front, Westminster Motor Insurance Association remains profitable but is experiencing increased competition in its market sector from new entrants, resulting in pressure on pricing and the erosion of margins. Santam Europe commenced business at the end of 2004 and business inflow is still fairly limited, mainly due to the slower-than-expected pick up at Bluesure.

The combined effect of all insurance activities resulted in a net insurance margin of 12.8 percent against 18.5 percent for the corresponding period in 2004.

Despite lower interest rates during the first half of the year, the investment return on insurance funds exceeded those of the previous year by 33 percent. This was primarily attributable to a continued focus on cash and working capital management that resulted in the 35 percent higher average float level (funds generated by insurance activities) year on year. Cash generated from operations of R1.4 billion was 49 percent higher than the amount achieved for the equivalent period in 2004. The group solvency level is currently 57 percent. After the return of R1.15 billion of surplus capital to shareholders in April this year the solvency level reduced to 53 percent, compared to 69 percent at the end of 2004. The annualised return on shareholders' funds amounted to a very healthy 27 percent for the period under review.

The strong performance of the local equity market during the second quarter contributed towards the 130 percent increase in investment income (excluding the investment return on insurance funds). Earnings from associated companies were also significantly higher than the comparable period in 2004 mainly due to the very good results of Credit Guarantee Insurance Corporation of Africa Ltd.

The acquisition of the structured risk solution provider, Nova Group Holdings Ltd, was completed subsequent to the end of the reporting period. As part of this transaction, Santam is in the process of completing the disposal of a third of its interest in the newly formed Nova group, which incorporates Santam Risk Finance, to Kagiso Treasury Services.

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

## **Santam Limited and its Subsidiaries**

*Reviewed Interim Report for the six months ended 30 June 2005*

### **PROSPECTS**

It is anticipated that the insurance industry trend experienced in the first half of 2005 will continue for the remainder of the year with further moderate pressure on underwriting margins due to a softer market, keener pricing and the continued normalisation of claims.

The international businesses will remain focused on achieving sufficient growth to ensure that operations yield profitable results and the required return on the invested capital.

We anticipate low interest rates for the remainder of 2005, which will continue to have an adverse effect on cash portfolio investment returns. There is uncertainty over the continuation of the strong equity market.

With a firm first half performance as a base, the board remains cautiously optimistic regarding overall prospects for the remainder of the year. However, it is unlikely that the results of the previous year will be repeated.

### **DECLARATION OF DIVIDEND (NUMBER 102)**

Notice is hereby given that the board has declared an interim dividend of 108 cents a share (2004: 95 cents). Shareholders are advised that the last day to trade "cum dividend" will be Friday, 9 September 2005. The shares will trade "ex dividend" from the commencement of business on Monday, 12 September 2005. The record date will be Friday, 16 September 2005, and the payment date will be Monday, 19 September 2005. Shareholders may not dematerialise or rematerialise their shares between Monday, 12 September 2005, and Friday, 16 September 2005, 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*

23 August 2005



## **Transition to International Financial Reporting Standards (“IFRS”)**

**Restatement of financial information for the year ended 31 December 2004 and the six months ended 30 June 2004 under International Financial Reporting Standards (“IFRS”)**





## COMMENTS

From 2005 onwards the Santam Group ("Group") is required to prepare its consolidated financial statements in accordance with IFRS and JSE Limited's ("JSE") Listing Requirements. This change applies to all financial reporting for accounting periods beginning on or after 1 January 2005 and consequently the Group's first published IFRS results will be its interim results for the six months ended 30 June 2005. The Group's first published full set of financial statements under IFRS will be for the year ending 31 December 2005. As the Group publishes comparative information for one year in its financial statements, the date for the transition to IFRS is 1 January 2004, which represents the start of the earliest period of comparative information.

In order to explain how Santam's reported performance and financial position are impacted by IFRS, the Group has restated information previously published under SA GAAP to the equivalent basis under IFRS. This restatement follows the guidelines set out in IFRS 1, First-time Adoption of International Financial Reporting Standards. The adoption of IFRS has resulted in certain adjustments to comparative information that may not be repeated in future reporting periods.

It is important to note that this financial information has been prepared in accordance with IFRS statements that are expected to be effective at 31 December 2005. These are subject to ongoing review and possible amendment by interpretive guidance from the International Accounting Standards Board ("IASB") and may therefore be subject to change. It should further be noted that the ultimate presentation as well as income statement and balance sheet captions could also change.

This document includes the following:

- Basis of preparation and explanation of transitional arrangements and material adjustments
- Consolidated Balance Sheets at 1 January 2004, 30 June 2004 and 31 December 2004
- Consolidated Income Statements for the six months ended 30 June 2004 and the year ended 31 December 2004
- Reconciliation of Shareholders equity at 1 January 2004, 30 June 2004 and 31 December 2004
- Reconciliation of Income Statements for the six months ended 30 June 2004 and the year ended 31 December 2004
- Reconciliation of total assets, liabilities and equity as at 1 January 2004, 30 June 2004 and 31 December 2004

## **Santam Limited and its Subsidiaries**

*Reviewed Interim Report for the six months ended 30 June 2005*

### **BASIS OF PREPARATION**

The Group has prepared the consolidated preliminary balance sheet at 31 December 2004 and the consolidated preliminary income statement for the year then ended, in accordance with IFRS, to establish the financial position and results of operations of the Group necessary to provide the comparative information expected to be included in the Group's first set of IFRS financial statements for the year ending 31 December 2005.

The Board acknowledges its responsibility for the preparation of the preliminary financial information which has been prepared in accordance with IFRS and policies expected to be adopted when the Board prepares the Group's first set of IFRS financial statements for the year ending 31 December 2005.

### **TRANSITIONAL ARRANGEMENTS**

The date of transition to IFRS for the Group is 1 January 2004. The Group's opening balance sheet at 1 January 2004 has been restated to reflect all existing IFRS's expected to be applicable at 31 December 2005. At transition, IFRS 1 allows a number of exemptions to the retrospective application principle. The Group made the following elections relating to the transitional arrangements:

#### **Cumulative translation differences**

The Group has elected that the cumulative translation differences on foreign operations be deemed zero at the date of transition.

#### **Business combinations**

The Group has elected not to apply the retrospective application requirements of IFRS 3, Business Combinations for combinations that occurred prior to 1 January 2004. Adjustments to goodwill were made in terms of IFRS 3. Refer to discussion below.

#### **Property, plant and equipment**

There were no adjustments to the value of property, plant and equipment as the residual values and useful lives of the assets were considered reasonable in terms of IAS 16, Property, Plant and Equipment.

#### **Share-based payments**

The Group has elected not to apply the provisions of IFRS 2, Share-based Payments to employee share option scheme awards granted on or before 7 November 2002.

#### **Designation of previously recognised financial instruments**

The Group has elected to designate certain financial instruments to be classified as "at fair value through income" at transition date.

#### **Hedge accounting**

As the Group does not actively hedge, and did not have any open hedges in 2004, this is therefore not applicable to the Group.

#### **Comparatives**

The Group has not taken advantage of the exemption within IFRS 1 that allows comparative information presented in the first year of adoption of IFRS not to comply with IAS 32, Financial Instruments: Disclosure and Presentation IAS 39, Financial Instruments: Recognition and Measurement and IFRS 4, Insurance Contracts.

## **Santam Limited and its Subsidiaries**

*Reviewed Interim Report for the six months ended 30 June 2005*

### **Estimates**

Where estimates have previously been made under SA GAAP, consistent estimates have been made on transition to IFRS.

### **Cash flow statement**

There have been no material adjustments to the cash flow statement in respect of cash utilised by operating activities before taxation (although the composition has changed), cash flows from investing activities and cash flows from financing activities as a result of the adoption of IFRS.

### **Further changes**

The possibility exists that the preliminary financial information may require adjustment before its inclusion in the Group's first IFRS financial statements for the year ending 31 December 2005 because of revisions or changes to standards issued by the IASB, and interpretations or guidance on the application of IFRS in a particular industry.

## **MATERIAL ADJUSTMENTS**

The basis of the material adjustments between SA GAAP and IFRS, as shown in the Reconciliation of Equity and Reconciliation of Income Statement tables, is noted below. Note that the adjustments are net of associated tax impact where applicable.

### **Goodwill**

Under SA GAAP, the Group recognised acquired goodwill at cost and amortised it on a straight-line basis over its expected useful life, not exceeding five years. Under IFRS, goodwill is not amortised and is subject to impairment reviews both annually and when there are indications that the carrying value may not be recoverable.

Under IFRS I, the SA GAAP goodwill balance at 1 January 2004 has been increased with the release of negative goodwill of R2 million in distributable reserves. The amortisation charge of R49 million for the year ended 31 December 2004 has been reversed. Included in the amortisation charge of R49 million was an amount of R23 million that was reversed against the carrying value of investments in associated companies.

The result of an impairment test on the restated balance of Goodwill as at 31 December 2004, was an impairment charge of R2 million for 2004 as well as an impairment of a foreign associate amounting to R19 million. This amount was previously included in the amortisation charge.

### **Cumulative translation differences**

Under SA GAAP the Group classified the investment in foreign subsidiaries as foreign entities. The foreign currency adjustments arising from the translation of foreign entities were recognised directly in equity, constituting the Foreign Currency Translation Reserve.

The distinction between foreign entities and integrated foreign operations based on the intention of management has been removed. IFRS requires the Group to determine the currency of the primary economic environment in which the entity operates. An entity, which has a non-rand functional currency, is translated at the closing exchange rate and the differences arising are reported directly in equity, whilst all other entities classified as having rand functional currency report foreign currency translation differences in the Income Statement.

In terms of IFRS I, the Group has elected to transfer the cumulative translation losses of R67 million for foreign operations as at 1 January 2004 to retained income.

## **Santam Limited and its Subsidiaries**

*Reviewed Interim Report for the six months ended 30 June 2005*

### **Share-based payments**

The Group grants share options to employees under an employee share incentive scheme. Previously, under SA GAAP no costs were recognised in the Income Statement.

In accordance with the requirements of IFRS, the Group adjusted its retained income balance on transition date by R3 million and has recognised an expense in the Income Statement of R8 million for 2004, with a corresponding increase in the share-based payment reserve. The options are measured at fair value at grant date. The fair value is recognised over the vesting period.

### **Reclassifications**

The Group has reclassified certain financial assets as “at fair value through income”, which was classified under SA GAAP as available-for-sale. This was merely a balance sheet reclassification as the Group previously did take all fair value adjustments through the Income Statement. This reclassification had no impact on equity or the Income Statement.

The fair value adjustments recognised in the Income Statement on “at fair value through income” financial instruments, are transferred to a separate distributable reserve called “Fair Value Adjustment Reserve” in line with the investment management philosophy.

### **AUDIT OPINION ON 2004 RESTATED FINANCIAL INFORMATION**

This restatement of financial information for the year ended 31 December 2004 has been audited by the Group's auditors, PricewaterhouseCoopers Inc. and their opinion is available for inspection at the Group's registered office. Their report includes an emphasis of matter that amendments to the interpretive guidance issued by the IASB, between the date of this announcement and the finalisation of the financial statements for the year ending 31 December 2005, may result in changes to the restatements published.

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

## Consolidated balance sheets

	At 31 December 2004 R million	At 30 June 2004 R million	At 1 January 2004 R million
<b>ASSETS</b>			
<b>Non-Current assets</b>			
Property and equipment	55	69	70
Goodwill	87	88	110
Deferred income tax	10	17	14
Investments in associates	230	173	166
Financial assets			
Equity securities:			
– at fair value through income	3 574	2 774	2 727
Debt securities:			
– at fair value through income	1 613	883	936
<b>Current assets</b>			
Reinsurance contracts	1 833	1 812	2 148
Deferred acquisition costs	146	129	154
Loans and receivables including insurance receivables	1 098	944	1 199
Cash and cash equivalents	3 927	3 843	3 203
<b>Total assets</b>	<b>12 573</b>	<b>10 732</b>	<b>10 727</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the company's equity holders</b>			
Share capital	1 171	1 161	1 130
Other reserves	636	593	577
Distributable reserves	3 642	2 630	2 267
	5 449	4 384	3 974
Minority interest	60	43	53
<b>Total equity</b>	<b>5 509</b>	<b>4 427</b>	<b>4 027</b>
<b>LIABILITIES</b>			
<b>Non-Current liabilities</b>			
Cell owners' interest	47	–	–
Deferred income tax	160	55	135
<b>Current liabilities</b>			
Insurance contracts	5 083	4 873	5 025
Deferred reinsurance acquisition revenue	115	90	131
Financial liabilities			
– at fair value through income	4	–	–
Provisions for other liabilities and charges	113	46	60
Trade and other payables	1 161	904	1 182
Current income tax liabilities	381	337	167
<b>Total liabilities</b>	<b>7 064</b>	<b>6 305</b>	<b>6 700</b>
<b>Total shareholders' equity and liabilities</b>	<b>12 573</b>	<b>10 732</b>	<b>10 727</b>

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

## Consolidated income statements

	Year to 31 December 2004 R million	Six months ended 30 June 2004 R million
<b>Gross written premium</b>	9 735	4 414
Less: reinsurance premium	1 892	724
<b>Net premium</b>	<b>7 843</b>	<b>3 690</b>
Less: change in unearned premium		
Gross amount	(102)	(90)
Reinsurers' share	(226)	(184)
<b>Net insurance premium revenue</b>	<b>7 719</b>	<b>3 596</b>
Investment income	477	220
Income from reinsurance contracts ceded	487	245
Net realised gains on financial assets	202	77
Net fair value gains on assets at fair value through income	596	(35)
Other operating income	5	7
<b>Net income</b>	<b>9 486</b>	<b>4 110</b>
Insurance claims and loss adjustment expenses	5 015	2 251
Insurance claims and loss adjustment expenses recovered from reinsurers	(618)	(254)
<b>Net insurance benefits and claims</b>	<b>4 397</b>	<b>1 997</b>
Expenses for the acquisition of insurance contracts	1 429	680
Expenses for marketing and administration	1 222	590
Expenses for asset management services rendered	41	21
Other operating expenses	2	1
<b>Expenses</b>	<b>7 091</b>	<b>3 289</b>
<b>Results of operating activities</b>	<b>2 395</b>	<b>821</b>
Finance costs	(14)	–
Share of profit/(loss) of associates	37	(17)
Cell owners' interest	(25)	–
<b>Profit before tax</b>	<b>2 393</b>	<b>804</b>
Income tax expense	(615)	(230)
<b>Profit for the year</b>	<b>1 778</b>	<b>574</b>
<b>Attributable to:</b>		
– equity holders of the Company	1 754	569
– minority interest	24	5
	<b>1 778</b>	<b>574</b>

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

## Consolidated income statements

	SA GAAP Year to 31 December 2004 cents	IFRS Year to 31 December 2004 cents	IFRS Six months ended 30 June 2004 cents
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### Earnings attributable to equity shareholders

#### Earnings per share

Basic earnings per share	I 513	I 531	497
Diluted earnings per share	I 492	I 509	490
Headline earnings per share	I 556	I 550	514
Diluted headline earnings per share	I 534	I 528	507

<b>Weighted average number of shares – millions</b>	<b>I 14.6</b>	<b>I 14.6</b>	<b>I 14.6</b>
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## Reconciliation of income statements

### Net Profit after Tax

	Year to 31 December 2004 R million	Six Months ended 30 June 2004 R million
As previously reported under SA GAAP	I 734	561
Goodwill amortisation reversed	49	32
Impairment of goodwill included in other operating expenses	(2)	(1)
Impairment of goodwill included in share of profit of associates	(19)	(20)
Share-based payments	(8)	(3)
<b>As reported under IFRS</b>	<b>I 754</b>	<b>569</b>

## Headline earnings reconciliation

Profit attributable to ordinary shareholders for the period	I 754	569
Adjusted for: non-trading items		
Impairment of goodwill included in other operating expenses	2	1
Impairment of goodwill included in share of profit of associates	19	20
<b>Headline earnings</b>	<b>I 775</b>	<b>590</b>

# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

## Reconciliation of total Assets, Liabilities and Equities

	At 31 December 2004 R million	Assets At 30 June 2004 R million	At 1 January 2004 R million
<b>As previously reported under SA GAAP</b>	12 529	10 703	10 709
Reclassification of cell owners interest			
Adjustments for:			
Goodwill	28	13	2
Share of profit from associate	16	16	16
<b>As reported under IFRS</b>	<b>12 573</b>	<b>10 732</b>	<b>10 727</b>

## Reconciliation of changes in shareholders' equity

	Share capital R million	Translation reserve R million	Contingency reserve R million	Other reserves Unrealised surplus R million
<b>1 January 2004</b>				
<b>As previously reported under SA GAAP</b>	1 130	(67)	577	454
Reclassifications				(454)
Adjustments for:				
Goodwill				
Share-based payments				
Translation reserve		67		
Share of profit from associate				
<b>As reported under IFRS</b>	<b>1 130</b>	<b>–</b>	<b>577</b>	<b>–</b>
<b>30 June 2004</b>				
<b>As previously reported under SA GAAP</b>	1 161	(92)	618	436
Reclassifications				(436)
Adjustments for:				
Goodwill				
Share-based payments				
Translation reserve		67		
Share of profit from of associate				
<b>As reported under IFRS</b>	<b>1 161</b>	<b>(25)</b>	<b>618</b>	<b>–</b>
<b>31 December 2004</b>				
<b>As previously reported under SA GAAP</b>	1 171	(115)	686	939
Reclassifications				(939)
Adjustments for:				
Goodwill				
Share-based payments				
Translation reserve		65		
Share of profit from of associate				
<b>As reported under IFRS</b>	<b>1 171</b>	<b>(50)</b>	<b>686</b>	<b>–</b>



# Santam Limited and its Subsidiaries

Reviewed Interim Report for the six months ended 30 June 2005

At 31 December 2004 R million	Liabilities		At 31 December 2004 R million	Equity	
	At 30 June 2004 R million	At 1 January 2004 R million		At 30 June 2004 R million	At 1 January 2004 R million
7 017 47	6 305	6 700	5 512 (47)	4 398	4 009
			28 16	13 16	2 16
<b>7 064</b>	<b>6 305</b>	<b>6 700</b>	<b>5 509</b>	<b>4 427</b>	<b>4 027</b>

Distributable Reserve				
Share-based payment reserve R million	Retained earnings R million	Fair value adjustment reserve R million	Minority shareholders' interest R million	Total R million
	1 862	454	53	4 009
				—
3	2 (3) (67) 16			2 — — 16
<b>3</b>	<b>1 810</b>	<b>454</b>	<b>53</b>	<b>4 027</b>
	2 232	436	43	4 398
				—
6	13 (6) (67) 16			13 — — 16
<b>6</b>	<b>2 188</b>	<b>436</b>	<b>43</b>	<b>4 427</b>
	2 724	939	60	5 465
				—
11	28 (11) (65) 16			28 — — 16
<b>11</b>	<b>2 692</b>	<b>939</b>	<b>60</b>	<b>5 509</b>

**NON-EXECUTIVE DIRECTORS**

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

**EXECUTIVE DIRECTORS**

SC Gilbert (Chief executive), MJ Reyneke

**SPONSOR**

Investec Bank Limited

**COMPANY SECRETARY**

Sana-Ullah Bray

**TRANSFER SECRETARIES**

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JSE share code: SNT, NSX share code: SNM