

“It is not the strongest of the species that survive, nor the most intelligent, but the one most responsive to change.”

Charles Darwin

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'05 SANTAM Annual Report

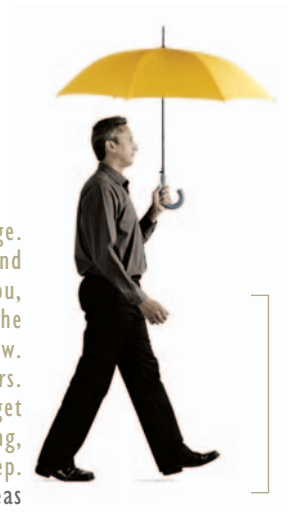
A shortened Afrikaans version of this Annual Report is available on request. To obtain a copy, contact Karen Dobias on +27 21 915 7860, or email karen.dobias@santam.co.za

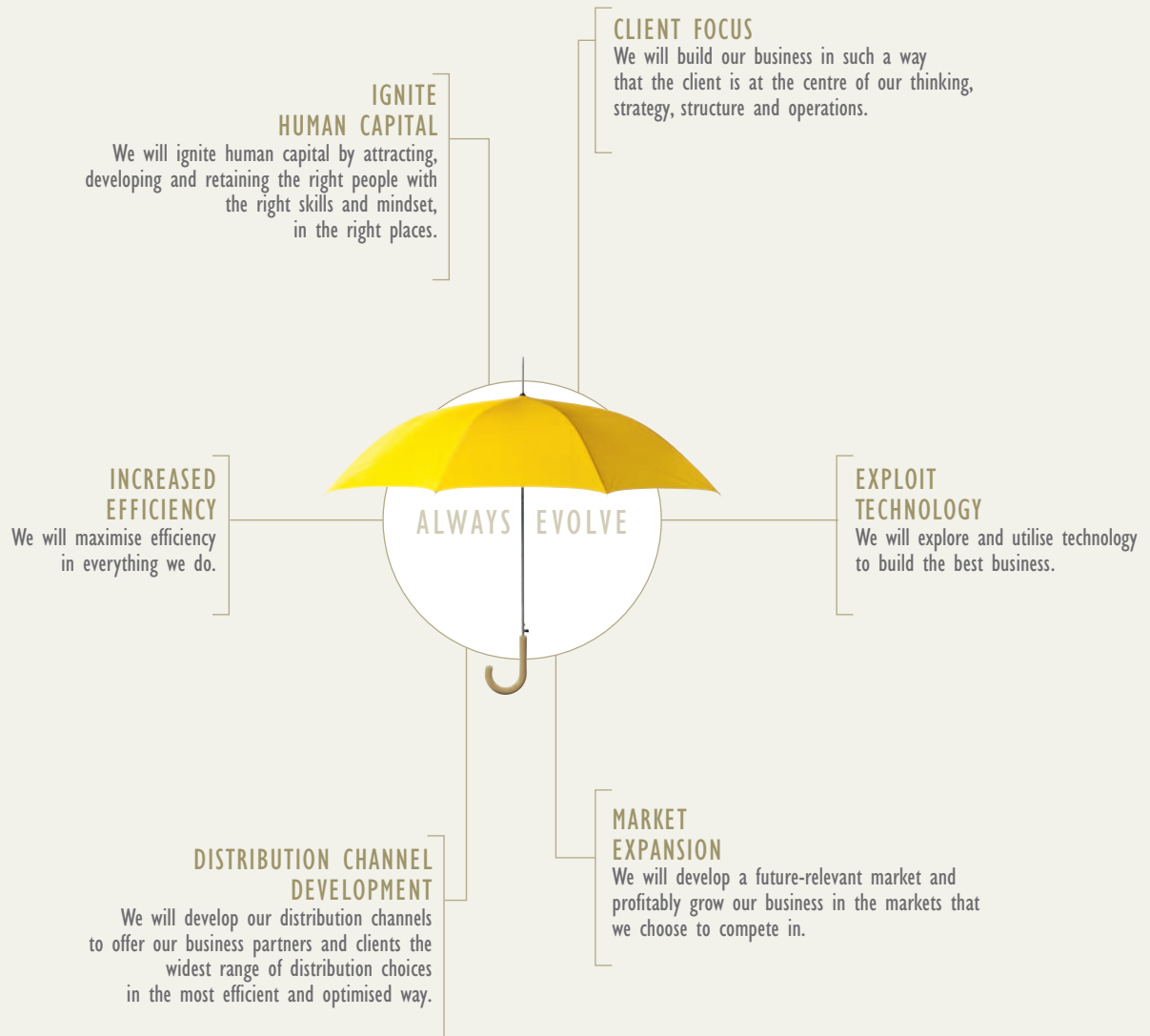
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JSE share code: SNT
NSX share code: SNM

The only thing you can be sure of in life is change.
You will either be following others as they change and
adapt the environment around you,
or you will be evoking the change and creating the
standard for others to follow.
At Santam we choose to be the leaders.
This does not mean we jump at any chance we get
to move things forward but rather that we spend time assessing,
planning and predicting before confidently taking the next step.
In the diagram on the next page we have highlighted the six areas
that we feel, with consistent attention, will drive us
to be way ahead of our competitors in 2010.





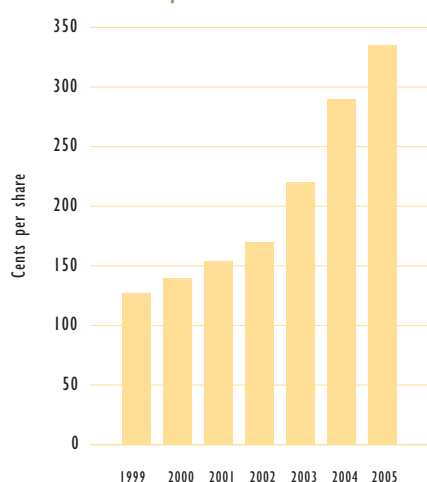
Santam concluded a very successful year in which it generated a 34% return on shareholders' funds (2004: 37%). This was predominantly due to excellent investment income on the back of firmer equity markets, as well as a strong underwriting performance, although the latter has normalised

FINANCIAL HIGHLIGHTS

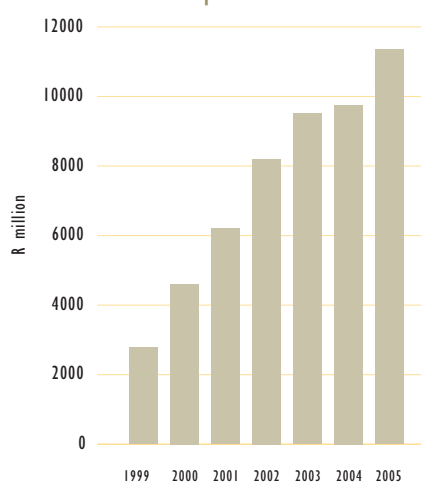
somewhat compared to the high levels achieved in 2004. Headline earnings for the year were on par with those of the previous year at R1.78 billion, equating to headline earnings per share of 1540 cents against the 1548 cents for 2004.

	2005 R million	2004 R million
Gross written premium	11 355	9 735
Underwriting result	775	1 125
Net insurance result	1 016	1 328
Investment income, realised and fair value gains	1 487	1 277
Profit for the year	1 801	1 778
Headline earnings per share (cents)	1 540	1 548
Dividends per share (cents)	335	290
Net asset value per share (cents)	4 927	4 706
Solvency margin	61%	70%

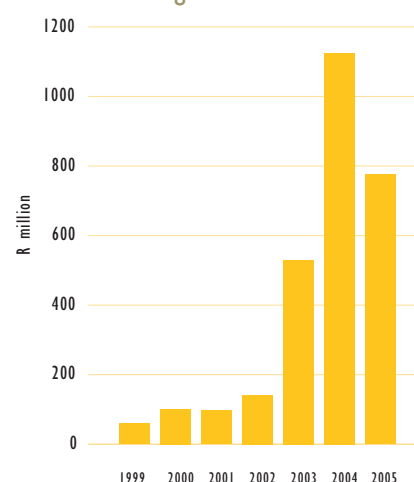
Dividends per share



Gross written premium



Underwriting result



“The
stationary
condition
is the beginning
of the end.”

Henri Amiel

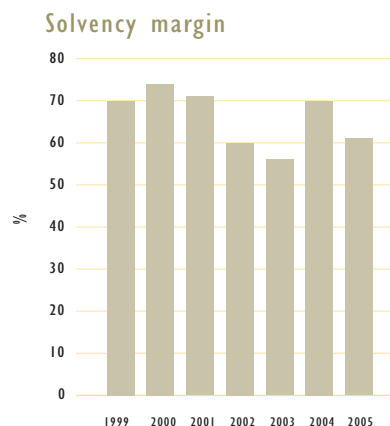
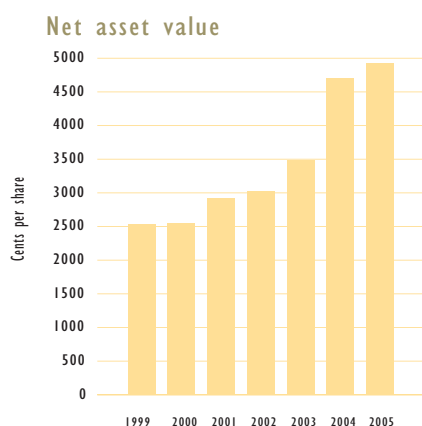


SEVEN-YEAR REVIEW

Results prior to 2004 have not been restated in terms of International Financial Reporting Standards. Refer to note 6 to the financial statements for the cumulative effect of adjustments made on the date of transition.

		7-year compound growth%/average	2005	2004	2003	2002	2001	2000	1999
PERFORMANCE PER ORDINARY SHARE									
<i>cents per share</i>									
Headline earnings	(26.6)		1 540	1 548	751	274	518	192	375
Dividends	17.6		335	290	220	170	154	140	127
Net asset value	11.7		4 927	4 706	3 482	3 018	2 914	2 546	2 532
UNDERWRITING									
Claims paid and provided (%)*	Avg	67.2	65.3	57.0	64.8	70.7	70.7	72.0	70.0
Management expenses (%)*	Avg	14.1	12.6	15.9	15.7	14.1	13.9	13.8	12.7
Cost of acquisition (net commission & management expenses) (%)*	Avg	27.0	26.0	28.2	27.4	26.7	27.2	25.4	27.7
Underwriting result (%)*	Avg	5.8	8.7	14.7	7.8	2.6	2.0	2.6	2.3
* Expressed as a percentage of earned premium									
RETURN AND PRODUCTIVITY									
Earnings expressed as % of average shareholders' funds	Avg	19.5	34.0	37.0	22.0	9.2	19.0	1.1	16.0
Pre-tax return on total assets (%)	Avg	10.5	15.6	19.0	11.6	4.9	9.9	4.6	7.7
Effective tax rate (%)	Avg	25.8	22.4	25.4	30.0	26.6	19.5	38.4	18.2
Gross premium per employee — R '000 **	Avg	2 616	3 795	3 317	3 163	2 940	2 146	1 621	1 327
** Alternative Risk Transfer premiums excluded									
SOLVENCY AND LIQUIDITY									
Dividend cover (times)	Avg	3.2	4.6	5.3	3.3	1.6	3.4	1.4	3.0
Solvency margin (%)	Avg	66	61	70	56	60	71	74	70
Cover of net obligations by cash flow (times)	Avg	0.2	0.3	0.5	0.4	0.4	0.1	(0.6)	0.2
OTHER STATISTICS									
Number of permanent employees			2 733	2 791	2 880	2 656	2 856	2 839	2 098
Number of shareholders			4 457	4 242	3 764	3 946	2 405	3 009	3 300
THE JSE SECURITIES EXCHANGE									
SOUTH AFRICA (JSE) PERFORMANCE									
Market price per share (cents)									
Closing			8 050	7 100	5 140	3 225	3 640	3 200	3 030
Highest			8 500	7 100	5 200	4 200	4 060	3 200	3 030
Lowest			5 650	4 500	2 990	3 000	2 950	2 050	1 890
Market capitalisation (R million)			9 358	8 180	5 840	3 607	4 035	3 512	2 204
Santam share price index***			973	847	585	330	385	327	304
FTSE - JSE financial index			388	323	190	158	197	238	236
Closing price/earnings (times)			5.23	4.56	6.85	11.76	7.02	16.67	8.09
Closing price/equity per share (times)			1.6	1.5	1.5	1.1	1.2	1.2	1.2
Closing dividend yield (%)			4.2	1.3	4.3	5.3	4.2	4.4	4.2
Number of shares issued (million)			116.2	115.2	113.6	111.8	110.9	109.8	72.7
Number of shares traded (million)			22.2	22.3	15.5	19.0	15.1	16.3	19.2
Number of shares traded as a % of total number of shares in issue			19.1	19.4	13.7	17.0	13.6	14.8	26.4
Value of shares traded (R million)			1 541.3	1 172.3	569.9	686.7	542.6	444.8	476.0
*** Base year 1992									

The results for 1999 to 2002 have been restated for comparative purposes and are unaudited. This restatement incorporates the change in accounting policy in 1999, 2001 and 2002.



SEVEN-YEAR REVIEW

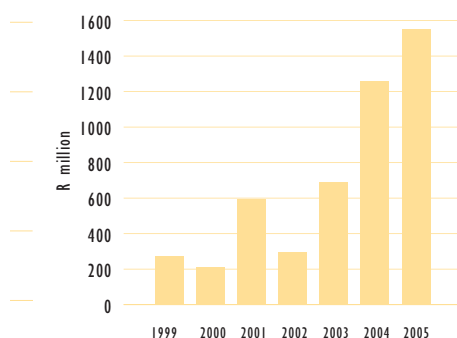
Results prior to 2004 have not been restated in terms of International Financial Reporting Standards. Refer to note 6 to the financial statements for the cumulative effect of adjustments made on the date of transition.

	7-year compound growth% /average	2005	2004	2003	2002	2001	2000	1999
INCOME STATEMENTS								
Gross premium income	26.4	11 355	9 735	9 513	8 197	6 206	4 603	2 784
Net premium income	23.8	9 344	7 723	7 022	5 635	4 574	3 774	2 597
Underwriting result	53.7	775	1 125	530	142	97	101	59
Investment return on insurance funds****		241	203	205	115	88	—	—
Net insurance result		1 016	1 328	735	257	185	101	59
Investment income & associated companies		1 309	1 056	486	178	540	212	275
Impairment/amortisation of goodwill		(4)	(2)	(37)	(3)	—	—	—
Income before taxation		2 321	2 382	1 184	432	725	313	334
Taxation		520	604	356	116	141	120	61
Minority interest		23	24	22	14	12	6	1
Net income attributable to equity holders	36.7	1 778	1 754	806	302	572	187	272
BALANCE SHEETS								
Property and equipment		57	55	70	41	36	53	42
Investments		6 116	5 417	3 835	3 208	3 600	3 237	3 493
Goodwill		80	87	109	33	—	—	—
Deferred tax asset		22	10	14	14	—	25	—
Technical assets****		2 375	1 979	2 302	2 072	1 646	1 510	—
Current assets		6 208	4 992	4 379	3 548	2 023	1 926	795
Total assets		14 858	12 540	10 709	8 916	7 305	6 751	4 330
Shareholders' funds	21.3	5 852	5 482	4 009	3 414	3 260	2 814	1 841
Technical provisions****		6 716	5 198	5 156	4 226	3 295	3 303	—
Non-current liabilities		506	148	135	34	105	153	30
Cell owners' interest		268	47	—	—	—	—	—
Current liabilities & provisions		1 516	1 665	1 409	1 242	645	481	2 459
Total equity and liabilities		14 858	12 540	10 709	8 916	7 305	6 751	4 330
CASH FLOW STATEMENTS								
Cash generated by operations		1 929	1 645	1 092	682	(89)	(263)	139
Investment income		436	449	418	309	315	238	214
Cash generated from operating activities		2 365	2 094	1 510	991	226	(25)	353
Taxation paid		(778)	(361)	(233)	(96)	(69)	(53)	(126)
Dividends paid		(360)	(296)	(200)	(178)	(163)	(116)	(108)
Cash retained from operating activities		1 227	1 437	1 077	717	(6)	(194)	119
Cash utilised in investment activities		578	(714)	(31)	352	(50)	791	58
Cash retained from operating and investment activities		1 805	723	1 046	1 069	(56)	597	177
Proceeds from ordinary shares issued		27	41	39	21	24	984	—
Return of excess capital		(1 156)	—	—	—	—	—	—
Investment in associated companies		4	(37)	(69)	(5)	—	—	—
Proceeds from disposal of associated company		7	8	—	13	—	—	11
Disposal/Investment in subsidiaries		(41)	9	(408)	(36)	—	(1 591)	—
Cash acquired on acquisition of subsidiaries		281	—	406	144	—	567	—
Cash utilised in addition to fixed assets		(19)	(12)	(36)	(21)	(2)	11	(12)
Increase in cell owners' interest		88	25	—	—	—	—	—
Translation effect on foreign cash balances		4	(33)	(47)	—	—	—	—
Cash generated for the year		1 000	724	931	1 185	(34)	568	176
Cash and cash equivalents at beginning of the year		3 927	3 203	2 272	1 087	1 121	553	377
Cash and cash equivalents at end of the year		4 927	3 927	3 203	2 272	1 087	1 121	553

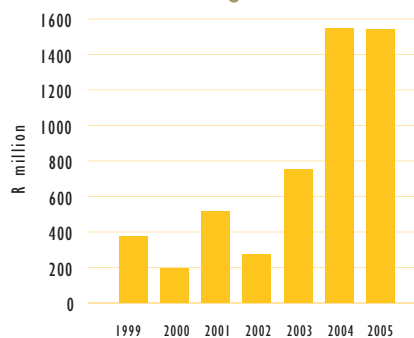
Format of cashflow was changed with effect 2002.


**** Comparative figures prior to 2000 have not been provided as these are not available.

Investment income



Headline earnings





“The world
is changing very fast.
Big will not beat
small any more.
It will be the fast
beating the slow.”

Rupert Murdoch




DESMOND SMITH
Chairman

CHAIRMAN'S REVIEW


The 2005 financial year proved to be another outstanding year for Santam, as we continue to focus on the fundamental aspects of our business that drive sustainable profitability. This focus helped to ensure that we once again delivered excellent results.

In 2003 and 2004, the South African short-term insurance industry experienced the longest-running positive underwriting cycle in its history, and Santam achieved its best financial results ever. This exceptional performance was because most factors that could positively influence results worked in favour of the industry.

Robust economic conditions in 2005 were conducive to further good results being attained, and the sustained strong performance of the local equity market resulted in healthy returns on our investment portfolio. However, during the year under review, the underwriting cycle started to soften, although not as severely as initially expected, resulting in keener pricing. In addition, the claims pattern normalised mostly because of the return to more typical weather conditions.



We were able to take advantage of our strong financial position and the positive energy that this generated within the business to focus on the core aspects of our business that are the cornerstones of sustainable profitability.



Project 2010, which was initiated in November 2004, culminated in a new vision and strategy for the medium- and longer-term future of Santam. It aims to meet the expectations of our stakeholders and ensure our position as leader in the market in the lead up to 2010 and beyond. Moreover, our ongoing effort to balance and optimise the relationship between our level of reinsurance, the performance of our investment portfolio and our solvency margin contributed favourably to our results and enabled us to achieve the aggressive growth targets we set for ourselves. We believe that these strategies have created a solid foundation for sustainable financial results for the future.

Industry Challenges

As the prolonged period of strong underwriting results comes to an end, the short-term insurance industry has started experiencing pricing pressures. History has shown that extreme price cutting to gain market share at the expense of prudent underwriting fundamentals is a high-risk strategy that could lead to major underwriting losses and a significant price correction. We hope the industry has learnt from its previous mistakes and won't slide into a price-cutting frenzy that could potentially jeopardise the financial strength of many companies and damage the good position of the

short-term insurance industry.

The Department of Trade and Industry (DTI) recently published The Codes of Good Practice on Black Economic Empowerment, which have created some uncertainty in the financial services sector. Although the DTI codes have similar core elements to the Financial Sector Charter (FSC), different targets have been set. We await clarity as to whether guidelines and targets in the DTI code or that of the FSC will take precedence.

Despite the uncertainty, the board and management team remain committed to making transformation a reality at Santam. We are progressing well with our employment equity initiatives, and are encouraging learnerships and other skills and training initiatives to fast-track individuals. We have established a panel to evaluate all new recruitments to ensure that our employment equity policies are given due consideration at all times. We expect improved progress with our employment equity strategy in 2006 as we closely align our recruitment and promotion practices to underpin the company's commitment to and goals for socio-economic transformation.

We have not engaged in any discussions to address our BEE equity ownership credentials. Our first step in this process will be to assess our current BEE ownership status, taking into consideration the status of our larger corporate shareholders, such as Sanlam, which recently concluded the Ubuntu-Botho Community Development Trust deal. Once we have a better idea of our overall BEE status, we will engage with the board and our shareholders to decide on an appropriate plan of action.

Our commercial equity strategy has centred on entering into joint ventures with Black-owned companies in the insurance industry and in regard to procurement by the company. We continue to seek out new BEE partners to transfer skills and access markets where BEE credentials are paramount. The Nova-Santam Risk-Kagiso transaction concluded in 2005 creates the first Black-empowered South African insurance company specialising in cell captive and niche insurance solutions.

The FSC requires that the financial services sector make its services and products accessible to South Africans across the entire socio-economic spectrum. In 2006, we will launch new products, services, and distribution channels to ensure ease of access to a wider market. Further information on our sustainability initiatives can be found on page 28 of this report.

Recently, the life insurance industry has been in the spotlight as the Financial Services Board (FSB) and the media turned their attention to perceived unfair and irregular market conduct within the industry. As the life insurance industry makes the necessary adjustments to address areas of concern, the financial services industry as a whole is experiencing increased pressure from regulatory authorities, the media, and consumers for greater transparency and disclosure. It is inevitable that this will spill over to the short-term insurance industry. Although this may prove challenging, we welcome any developments that might improve our offering and service to our clients and the intermediaries who support us.

The many natural disasters that occurred worldwide in 2005 did not have a major effect on the South African short-term insurance industry. Reinsurance rates are still at acceptable levels, and the significant cutback in our reinsurance level from 31 percent of gross written premiums in 2002 to current levels of around 17.7 percent ensures that we are less exposed to future volatility in reinsurance rates, without increasing our risk unnecessarily.

Shareholder Value

Santam's core business philosophy has always been to maximise return on capital, provide excellent service and products, and deliver the highest sustainable level of returns to our shareholders. Last year, we returned R1.15 billion in capital to shareholders. However, our current solvency levels are in excess of our optimal risk-adjusted capital requirements. We propose to use excess capital either to buy back Santam shares, take advantage of any investment opportunities that may arise or return capital to shareholders again.

We have identified our major stakeholders as the people for whom we add value and who are critical to the success of our performance. We remain committed to our policy of open dialogue with our stakeholders to communicate a clear understanding of our business, performance, and strategies for the future. At least twice a year, we formally present details of our performance to the investment community, in the hope that this will engender insight into our future strategies and impact positively on our share price.

Prospects

The South African government has done a commendable job of creating a well-managed economy and a favourable environment in which to conduct business. This positive economic cycle appears to be sustainable for the near future, as it is underpinned by permanent structural changes brought about by government's commitment to promoting economic transformation.

Meaningful participation by blacks in the South African economy has seen the emergence of a new black middle-class, which is acquiring assets such as property, motor vehicles, and household goods. The concomitant opportunities to provide insurance for these new acquisitions will stimulate growth in the short-term insurance industry.

Our drive towards international expansion is still an important strategy for the growth and diversification of our future income base. Positive indications from the market in the United Kingdom appear to support our conviction that the Santam Multiplex concept will be a success in the UK and Europe, despite taking longer to establish than initially expected. We are watching Sanlam's entry into the Indian market with interest as it could create new avenues for expansion for Santam.

The exceptional profitability of the past few years has not dampened our awareness of the potential for extreme volatility that is an inherent feature of the short-term insurance industry. Our focus in the past few years on internal restructuring and forward-thinking strategies has prepared us for the inevitable leaner years. As the positive underwriting cycle begins to turn and the claims pattern normalises, our outlook for 2006 is cautiously optimistic as we anticipate another year of improved growth and solid results.

Board of Directors

At the 2003 Annual General Meeting, we obtained approval to increase the board from 12 to 15 members. In August 2005, we appointed Ebrahim

Moolla, a respected practicing attorney, to the board. His wealth of knowledge and experience in the area of law is a valuable addition to the overall expertise of the board.

During the year, the members of the board actively contributed to the discussions that culminated in the company's new vision and strategy for 2010. We will wholeheartedly participate in the implementation phase and look forward to the realisation of the envisaged strategic outcomes. The structured and disciplined manner in which the board and the management team have optimised the core elements of the business will position Santam advantageously for 2010 from a financial point of view. I am confident that the collective wisdom, enthusiasm, and dedication of the board will stand the business in good stead in the year ahead.

Acknowledgements

I wish to thank my colleagues on the board for their active participation and significant contribution during the year.

On behalf of the board, I wish to extend our sincere gratitude to the committed and talented team of management and staff who excel in meeting the daily challenges of the business and who are, ultimately, the source of this year's excellent results.


I wish to express our appreciation to our broker network, business partners, suppliers and customers whose ongoing loyalty and support is integral to our success and ensures that we remain on top of our game.



DESMOND SMITH

Chairman

Our focus in the past few years on internal restructuring and forward-thinking strategies has prepared us for the inevitable leaner years.



“In life and business
there are two cardinal sins.
The first is to act
precipitously without thought
and the second is
not to act at all.”

Carl Icahn, self-made billionaire



STEFFEN GILBERT
Chief Executive

CHIEF EXECUTIVE'S REVIEW

Santam produced excellent results for the year under review, as the ongoing strength in the South African economy and a buoyant equity market created a positive environment for the short-term insurance industry. In outperforming our peers again, we demonstrated the success of our ongoing objective of sustainable profitability.

As expected, our operational results were not as exceptional as last year's. The claims pattern normalised in 2005 and the extremely robust underwriting cycle of the previous two years softened. Compared to 2004, we received more claims because of weather, fire, seismic events and motor vehicle accidents. On the upside, the rate of claims for theft and hijackings dipped marginally.

Operational review

The healthy economic and underwriting conditions of the past few years gave us an opportunity to review our medium- and long-term strategies from a position of strength. In 2004, we developed the 2010 redefinition project to take a fresh look at the future of Santam and determine what it is likely to hold. A 2010 Committee was established. It consisted of seven talented, open-minded employees and an external scenario thinking specialist. In addition, over 800 Santam employees were involved in discussion sessions so that they too could have their say about the future of the company and workshop the implementation of the initiatives that would come out of the 2010 project.

The excitement and enthusiasm generated by the 2010 project throughout the company was indicative of our willingness to embrace change, and soon a new vision and strategy evolved. The strategy has six strategic thrusts — client focus, market expansion, distribution channel development, increased efficiency, exploitation of technology, and the ignition of human capital. These strategic thrusts will deliver our vision of satisfied shareholders, delighted clients, motivated and prepared staff and efficient processes, so that Santam will always be recognised as the best in everything we choose to do.

Our brand values

To support the change management process, we have developed four brand values, which focus on the way we conduct our business — always flexible, notably professional, totally passionate and sustained stability.

The next step in the 2010 project, the implementation phase, is already in full swing. A strategy map has been developed for each area of the business, and balanced scorecards

will be used as a strategic planning tool. The balanced scorecards will be backed by targets and initiatives for each area that set clear goals for exactly what must be done. The scorecards will track their success in supporting the overall strategy. Personal objectives will be set for staff members with individual result

areas, so that each staff member understands his or her personal role in contributing to the success of the overall strategy.

As a result of 2010, we have established a Strategic Change Support unit, which has the task of constantly looking into the future to stimulate discussion, reinvent and reinvigorate the way we do business and, together with the executive committee, drive change, so that we constantly evolve to meet the needs of our stakeholders, remain profitable and maintain our status as South Africa's foremost short-term insurer.

Over the past few years, Santam has been evolving, going from being a short-term insurer to that of a risk manager over a broader spectrum of the market. As part of this strategy, during 2005 we concluded a deal with Kagiso Treasury Services (Pty) Ltd to sell a third of Santam Risk Finance Limited to them. As an integral part of the transaction, we acquired the Nova Group comprising Nova Risk and Nova Life. The combination of the Nova Group, Santam Risk Finance Limited, and Kagiso Treasury Services creates a fully-fledged, black empowered insurance company specialising in risk finance, cell captive solutions, and the full spectrum of risk transfer. The deal significantly increases our market share in cell captive and bespoke insurance solutions for corporate clients.

One of the top highlights this year was winning all three SAFSIA (South African Financial Services Intermediaries Association) awards for the short-term insurance industry. This is the first time that any company has won all three awards. Santam was chosen as Personal, Commercial and Corporate Insurer of the Year. Financial intermediaries across South Africa vote for the awards, and companies are assessed in several categories, including value for money, public awareness, levels of service, efficiency of administration, service to brokers, and best product range.

Our network of brokers is our most valued source of business, and we constantly work on ways to improve our communication and service to them. We have listened to their needs and have developed innovative and flexible products to help them — and us — remain competitive in the market. Our clean sweep at the SAFSIA awards is an encouraging acknowledgement of our strong relationship with our brokers and will spur us on to make sure that we remain their insurer of choice.

Further recognition of our top performance came from PricewaterhouseCoopers who chose Santam as the best insurance company in South Africa in the commercial, personal, and corporate categories. In addition, a Markinor survey named us the second favourite short-term insurance brand in South Africa.

During the year under review, Santam was ranked 14th in the *Financial Mail's Top 20 Companies*, and was the highest ranking financial services provider and the only insurer to make it onto this exclusive list of the best/cream of the country's blue-chip companies. We also moved up the ranks in the "Best Company to Work For" survey, coming 33rd out of the 121 companies evaluated.

Financial review

Historically, Santam has outperformed the market from an underwriting point of view, which has earned us our reputation as the best underwriter in South Africa. Once again, our strong financial performance has placed us ahead of our peers.

Although there has been little change in our market share, we grew gross written premiums by 17 percent, while net written premiums showed an increase of 21 percent.

Despite two fantastic years of exceptional results, management remained highly motivated to keep costs under control and set a strong budget in 2005. Our cash management over the past few years has been particularly exemplary. We have increased the size of the float (net insurance reserves and working capital) by 15.8 percent, year-on-year, making a meaningful contribution towards the net insurance result. Due to effective cash management, we achieved solid returns on our cash portfolio. The excellent performance of the external asset managers appointed to manage our investment portfolio, as well as the strength of the South African equity market during the year, saw our investment portfolio produce outstanding returns in the year under review.

At the end of 2004, when our reinsurance level was 19.4 percent of gross written premiums, we set ourselves a target to optimise our reinsurance level at around 15 percent. We achieved 14.6 percent by the end of the period under review if accounting changes for cell insurance are removed. We expect that further optimisation of our cover will cause this to settle in the lower teens over the next few years, without unduly increasing our risk.

Cash generated by operating activities increased by 12.9 percent and consequently the group's solvency level at the end of the year stabilised at around 61 percent, compared to a high of 70 percent last year before the return of R1.15 billion of excess capital to shareholders. This level is more than adequate to sustain our underwriting activities and allow us to take advantage of any future opportunities.

The net asset value per share increased from 4706 cents to 4927 cents during the year despite the capital reduction of 1000 cents per share. As the current solvency margin is in excess of the optimal risk adjusted capital requirements, the board approved a special dividend of 650 cents per share that would return capital to our shareholders. This will be paid simultaneously with the final dividend for the year.

In 2004, we formulated a new dividend policy to make sure that shareholders earn a stable dividend stream going forward in line with new business growth and profitability. The board has declared a final dividend of 227 cents per share, making the total dividend for the year 335 cents per share (2004: 290 cents), which represents an increase of 16 percent.

International review

It is still a high priority to extend our operations internationally in order to expand our income base outside of South Africa. We are content with the foundation that we have established offshore and with the prospects of

the international businesses. During the year under review, the combined international operations produced satisfactory results, showing a definite improvement on last year's performance.

Santam Europe, which sells personal and motor insurance in Ireland and the United Kingdom, completed its first full year of operations. Despite a small operating loss, the prospects for this business are positive and we expect that this operation will be profitable in 2006. Westminster Motor Insurance Association also performed well with its achievement of firm growth and satisfactory profits.

Despite Bluesure having taken longer than expected to penetrate the UK market successfully, it remains an important distribution channel for introducing the Multiplex concept to the UK market. Although Bluesure continued to struggle in the year under review, we have seen growth in sales and an improvement in the overall performance of this business. Sanlam is involved in various distribution activities in the UK, which we hope will ultimately benefit Bluesure by creating additional distribution channels and hence more opportunities to grow market share.

We still believe that our strategy of introducing the Multiplex product to the UK and Europe will prove to be successful, despite the uptake being slower than initially envisaged. For this reason, we continue to evaluate opportunities to grow the Multiplex concept in Europe. Although we envisaged that the international operations would already be generating a significant share of the group's annual turnover, this has not been the case due to the slow progress of Bluesure. However, we do expect the combined international operations to contribute between 10 percent and 15 percent of annual turnover by 2006/7.

Our investment in the Lloyds Syndicate, Beazley, continued to provide satisfactory returns.

Prospects

One of the outcomes of the 2010 redefinition project is a vision of our future. Predictions are for the growth of consumerism, increased information and more discerning clients, which highlights the need for the client to be the centre of our universe. In the future, clients will want to choose the channel of communication they wish to use to liaise with companies. In the run-up to 2010, we will address our delivery model to ensure that it is more client-centric and offers clients myriad alternative avenues to access insurance solutions and services at Santam. However, the broker network will remain our preferred channel of delivery, as we believe that brokers offer invaluable advice and assistance to our clients.

In our drive to be more client-centric, we are implementing ways to measure our client service, starting with the way we deal with claims, especially in times of high claims ratios. We are also increasing the size of the MultiSOS reaction centre team as a result of the enormous success of and demand for this 24/7 service.

Our marketing and advertising expenditure has grown to gain a larger share of advertising voice, particularly on television and radio, to reach a larger audience and keep Santam top-of-mind as South Africa's favourite insurer. The high turnover of policyholders in the South African short-term market poses an ongoing challenge for us. We believe that our greater focus on the client will go some way to curbing the current churn in policy turnover within our business, with a resultant increase in our client retention rate and, ultimately, an improved market share.

Over the past few years we have involved about 2 000 brokers in forums to discuss our good and weaker points as well as their unique needs. After listening to our brokers in terms of their product needs, in 2005 we launched a number of new products and value-adding extras, including MultiMotor, an enhanced Tracker offer, MultiBonus, MultiMax, Vinoplex, upgraded Mediplex and Dentiplex policies, as well as an extended Umbrella Liability Cover. We believe that by offering our broker network the product innovations and flexibility that they need to offer the best service to their clients, we will remain their preferred underwriter.

The Financial Sector Charter (FSC) requires that industries in the financial services sector make their services and products more accessible to a wider range of South Africans, particularly historically disadvantaged individuals. In this regard, and as part of our growth strategy, we are developing a range of simplified and less expensive insurance solutions as well as alternative distribution channels.

The first phase of these products will be launched early in 2006 to the LSM 3-5 income groups where Santam is currently not widely represented. Products offered will include innovative versions of our existing householder and homeowner policies, cellphone insurance, legal cover, funeral cover, etc. In the second phase of this strategy, we will introduce products for the lower LSM 1-2 income brackets, so that South Africans across the full socio-economic spectrum have easy access to our products and services. Our challenge lies in finding alternative ways of packaging and distributing these products so that we have the ability to take care of the insurance needs of these sectors of the population.

As the prolonged period of underwriting profits ends, we are prepared for more competitive pricing. However, due to the continuing downward trend in results, it is anticipated that there will be rate increases in the personal lines area, especially motor insurance, which may experience some upward pressure.

Social responsibility

Our vision for the future, developed as part of the 2010 project, takes into account socio-economic and environmental issues and acknowledges the potential impact of factors such as economic transformation, poverty, HIV and Aids, education, climate change and the preservation of natural resources on our staff, business partners, clients and other stakeholders and ultimately the profitability of the business. The 2010 project highlights the importance of embracing social responsibility and respecting the environment to enhance our commercial success and improve the long-term sustainability of our company.

In 2006, we will become involved in Ukuvuka Operation Firestop II, which aims to reduce the risk of danger and damage from uncontrolled fires in the Western Cape. Our involvement with the prevention of fire dovetails with our intention to develop products for the lower LSM income groups. Many people in these sectors of the population have experienced severe loss of and damage to property from out-of-control blazes. In the future we will be of assistance not only by offering insurance for the loss of personal property, but also by helping to prevent fires.

Our ongoing commitment to economic, social, and environmental sustainability is contained in our sustainability report on page 28.

Acknowledgements

In 2005, we took advantage of our strong financial position to rise to the challenge of foreseeing and embracing the changes the business will need to make in order to ensure our ongoing sustainability. It's the energy and dedication of our 2 733 staff members worldwide that will bring our new vision and strategy to fruition, and I would like to thank them for their hard work that saw us achieve yet another excellent year.

An experienced and engaged board of directors backs our strong team, and I wish to express my gratitude to the board, and in particular the Chairman, for the dedication and enthusiasm that is part of their indispensable counsel.

We appreciate the loyalty and ongoing support of our broker network, business partners, clients and suppliers, and look forward to sharing our success with all our stakeholders in the year ahead.

Having envisaged the future of Santam as best we can, our outlook for 2006 is positive and we anticipate another year of improved growth and solid results. We look forward to the challenge of continually improving and reinvigorating the way we do business to ensure that we are recognised as the best in everything we choose to do.



STEFFEN GILBERT

Chief Executive



“Russia on its path has oftentimes discussed and over discussed what has happened earlier, instead of moving forward. The result is always the same. It is very difficult to move forward when you’re looking backward.”

Mikhail Khodovsky, the richest man in Russia

SANTAM'S LEADERSHIP

Executive Management

STEFFEN GILBERT (43)

Chief Executive

FASSA, FIA

Appointed 2003

Primarily responsible to carry out the strategic plans and policies as established by the board of directors. To give direction and leadership toward the achievement of the company's philosophy, mission, strategy, and its annual goals and objectives. Ensures that the company meets and exceeds its targets in order to maximise market share growth and the profitability of the group.

EDWARD GIBBENS (37)

Broker Services

AIISA, B.Comm, MBA

Appointed 1992

Responsible for growth of gross premium income and underwriting profit in the broker environment of the company, as well as the efficient policy administration and running of the call centres for both sales and administration. Plans, directs and co-ordinates the efforts of marketing and sales personnel towards the accomplishment of these objectives. Develops future sales strategies and undertakes competitor analysis to ensure the company's competitive position.

HENDRI NIGRINI (55)

Risk Solutions

B.Com., ACII

Appointed 1986

Executive responsibility for the overall pricing and reinsurance strategy. This includes the development of systems and processes to support sustainable profitable growth, as well as being responsible for the development of relevant product solutions.

PANKAJ RANCHOD (50)

Insurance Services

B. Com. (Hons), CA (SA), MBL

Appointed 2003

Executive responsibility for the effective management of the total claims value chain, incorporating procurement for superior delivery of client service and optimal insurance results. Plans, leads, integrates and co-ordinates all the activities within insurance services. This includes the development of claim philosophy, policies, quality assurance practices and effective structuring of preferred supplier network. Further responsible for the attainment of the Financial Sector Charter procurement dimensions.

MACHIEL REYNEKE (49)

Corporate Services

B.Com. (Hons), CA (SA)

Appointed 2002

Has overall responsibility of the finance as well as IT function of the company, including, however not limited to, inter alia, financial reporting, corporate finance, investments, tax, internal audit, company secretarial and corporate legal services.

MPUMI TYIKWE (40)

Corporate and Specialist Distribution

ACII, FIISA, PDBM

Appointed 2004

Provides strategic direction to the company's partnerships driven business model. Ensures that synergies are extracted between the business units that provide a full spectrum of risk management solutions to corporate clients. Responsible for the growth in the premium income for the division in a sustainable and profitable manner.

KOOS VAN TONDER (57)

Santam International Operations

B.Com. (Hons), CA (SA)

Appointed 1987

Responsible for the group's international (European) operations. The ultimate objective is to introduce the package policy concept in Europe. As such, is responsible to identify opportunities through which to achieve this objective and to effectively implement approved initiatives. Manages, directs and controls all international investments in accordance with the objectives thereof. Has management responsibility for Westminster Motor Insurance Association Limited.

SANTAM'S LEADERSHIP

Santam Directors

DK SMITH (58)

Chairman, B.Sc., FASSA, FIA. Appointed 1 April 1994

Chairman of RGA Reinsurance Company of South Africa Limited. Chairman of Santam Ltd. Director of Clover Industries Ltd, Clover Danone Beverages (Pty) Ltd, Gensec Property Services Ltd, Plexus Asset Consulting (Pty) Ltd, Plexus Asset Management (Pty) Ltd, Plexus Holdings (Pty) Ltd, Plexus Trisource Investment Consulting (Pty) Ltd, Professional Provident Society Insurance Company Ltd (PPS), RGA Reinsurance UK Ltd, RGA South African Holdings (Pty) Ltd, Snyman & Van der Vyver Financial Services (Pty) Ltd and Strategy Partners (Pty) Ltd. Serves on the Council of Stellenbosch University and the Advisory Board of the University's Graduate School of Business. Member of the Board of Life Offices Association (LOA), and Advisory Committee on Long-Term Insurance as well as Council of the Ombudsman for Long-term Insurance.

SC GILBERT (43)

Chief Executive, FASSA, FIA. Appointed 14 July 2003

Chairman of Santam Europe Ltd, Westminster Motor Insurance Ltd, Director of Santam Risk Finance Ltd, Nova Group Holdings Ltd, Nova Life Partners Ltd, Nova Risk Partners Ltd, South African Insurance Association (SAIA) and Bluesure Ltd.

JJ GELDENHUYS (66)

Director, B. Com., ACIL. Appointed 20 November 2001

JG LE ROUX (60)

Director, B.Sc. (Agric). Appointed 23 May 2000

Chairman of Boland Vineyards International, Cape Coastal Vineyards (Pty) Ltd, Paarl Valley Bottling (Pty) Ltd and Blois Estate (Pty) Ltd. Director of Cape Wine Shippers, Cape Coastal Vintners and Vinpro (Pty) Ltd.

NM MAGAU (53)

Director, D. Ed. Appointed 28 May 2002

President of the Businesswoman's Association. Director of Murray and Roberts Holdings Ltd, Thebe Investments (Pty) Ltd, Tselane Basadi (Pty) Ltd, Mosele (Pty) Ltd, Fastcomm (Baithekgi), B and D Solutions and Mouldmed (RRR). Advisor on the UCT Business School Advisory Board.

AR MARTIN (67)

Director, B.Com., CA (SA). Appointed 18 November 1996

Chairman of ER24 Holdings (Pty) Ltd and Tswane Private Hospitals (Pty) Ltd. Director of Trans Hex Group Ltd, Medi Clinic Corporation Ltd, Credit Guarantee Insurance Corporation of Africa Ltd, Air Traffic and Navigation Services Ltd. Barnard Jacobs Mellet Holdings Ltd and Datacentrix Holdings Ltd.

JE NEWBURY (63)

Director. Appointed 24 November 1998

Chairman of Kolbenco (Pty) Ltd, Metropolitan Health (Pty) Ltd, Metropolitan Health Corporate (Pty) Ltd, Metropolitan Health Holdings (Pty) Ltd, Ocneblok Properties (Pty) Ltd, Tracker Investment Holdings (Pty) Ltd, Tracker Network (Pty) Ltd and Astonville Consulting (Pty) Ltd. Director of Blue Bulls, Metropolitan Holdings Ltd, Sail Group Ltd, Castellano Beltrame (Pty) Ltd, Pinhope Investments (Pty) Ltd, Ziphatele Investments (Pty) Ltd, Southern Africa Tour, Leopard Creek Country Club Ltd, Leopard Creek Share Block Ltd and John Newbury Investments (Pty) Ltd.

P DE V RADEMEYER (58)

Director, CA (SA). Appointed 20 February 2001

Director of Sanlam Ltd, Sanlam Life Insurance Ltd, Genbel Securities Ltd, Sanlam Capital Markets Ltd, Sanlam Investment Management (Pty) Ltd and the Afrikaanse Handelsinstituut.

MJ REYNEKE (49)

Executive Director, B.Com. (Hons), CA (SA). Appointed 26 August 2003

Director of Santam Namibia Ltd, Santam Risk Finance Ltd, Nova Group Holdings Ltd, Nova Life Partners Ltd, Nova Risk Partners Ltd, Credit Guarantee Insurance Corporation of Africa Ltd, Admiral Professional Underwriting Agency (Pty) Ltd, Lion of Africa Insurance Company Ltd, The Lion of Africa Holdings Company (Pty) Ltd, Pamodzi Brokers Holdings Ltd, Thebe Risk Services Holdings (Pty) Ltd and Thebe Risk Services (Pty) Ltd.

GE RUDMAN (62)

Director, B.Sc., FASSA, FFA. Appointed 23 January 1996

Director of Sanlam Ltd, Sanlam Life Insurance Ltd, and Lamform (Pty) Ltd.

J VAN ZYL (49)

Director, Ph.D., D.Sc. (Agric). Appointed 1 August 2001

CEO and Executive Director of Sanlam Ltd. Chairman of Sanlam Life Insurance Ltd and Sanlam Investment Management Ltd. Director of African Life Assurance Company Ltd, Sanlam Netherlands Holdings BV and Sanlam Financial Services Ltd. Council member of the University of Pretoria.

BP VUNDLA (58)

Director, BA (SA). Appointed 28 May 2002

Director of Alcatel South Africa, New Seasons Investment Holdings (Pty) Ltd, Wesbank Ltd, Mail & Guardian Ltd and AMB Capital.

EA MOOLLA (56)

Director, B Juris (UDW), Practising Attorney, Appointed 23 August 2005

Past President of the KwaZulu-Natal Law Society, Joint Vice-Chairman of the Attorneys Fidelity Fund SA, Director of the Legal Aid Board of South Africa (1994-2005), Member of the Executive Committee of the Board of Control of the School for Legal Practice (University of Natal/Law Society of South Africa). Past Member of the Insider Trading Directorate of the Financial Services Board, Director and Deputy Chairman of the Professional Provident Society Holdings Ltd (PPS) and Director of PPS Insurance Ltd, Trustee PPS Sanlam RA Fund, Member of Remco and Audit and Risk Committee. Previously an acting High Court Judge.



“The people who
are crazy enough to think
they can change the world
are the ones who do.”

Apple Computer, television ad

CORPORATE GOVERNANCE

COMPLIANCE WITH THE CODE OF CORPORATE PRACTICES AND CONDUCT

The company is committed to the highest standards of corporate governance as defined in the King II Report on Corporate Governance. As a financial institution, we have a responsibility to conduct our affairs with prudence and integrity and to safeguard the interests of all stakeholders by complying with the recommendations of the Code of Practices and Corporate Conduct in the King II report.

The board is responsible for the company's governance policy and recognises its responsibility to shareholders, employees and the community to uphold high standards in economic, social, environmental and ethical matters by ensuring that the company conducts its activities in accordance with best practice.

The non-executive directors, who are all influential in the decision-making process, come from a range of industries and possess a mix of skills and business experience. They maintain an underlying responsibility to ensure that their judgement is exercised freely and independently from any relationship with the executive management of the company and, in the board's opinion, there is no business or relationship within the current structure that could materially interfere with the exercise of its judgement.

Through its charter the board has reserved matters specifically for its attention to ensure that it exercises full control over significant strategic, financial, operational and compliance matters. The board is regularly advised and updated on activities of the company. On appointment new directors are subject to a formal induction programme and receive appropriate training and guidance in their duties and responsibilities.

Directors also have access to the services and advice of the group secretary and may take independent professional advice at the expense of the company in the furtherance of their duties as and when required.

The board's accountability is demonstrated by:

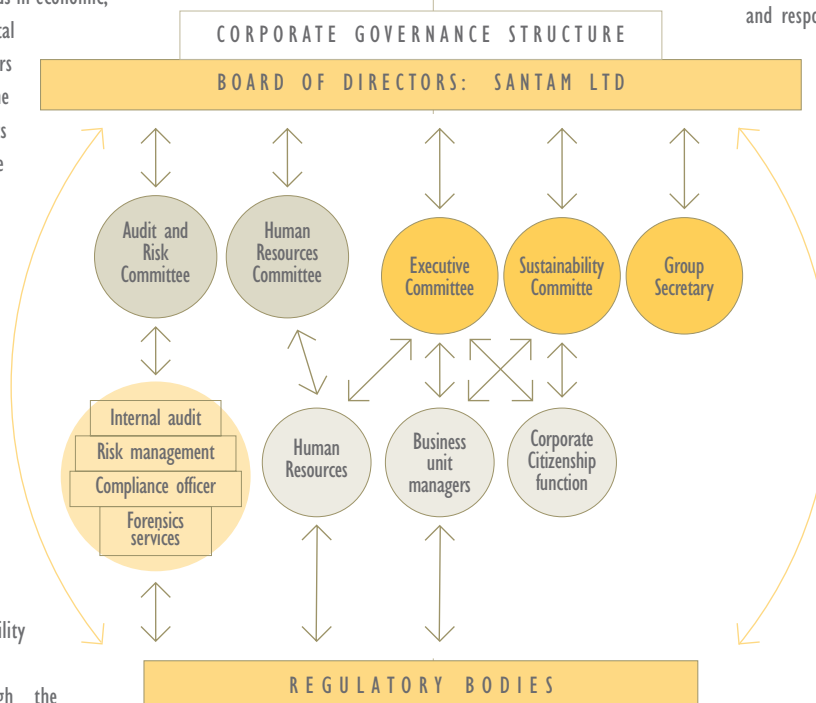
- Allocating, through the company's Delegation of Authority framework, major roles and responsibilities to ensure that, in the performance of their duties, individuals take the interests of all stakeholders into account;
- Ensuring that there are formal and clear procedures to be observed in certain key areas, so that decisions and actions may be readily reviewed both internally and externally by regulators and auditors;
- Adopting clear and formal procedures including the board charter; and
- Conducting the company's affairs in accordance with the company's code of ethics.

THE BOARD AND COMMITTEES

Overview of the constitution of board

The board comprises of thirteen directors, twelve of whom served throughout the year ended 31 December 2005. As at that date, there were two executive directors and eleven non-executive directors including the chairman.

The effective operation of the board falls principally under the responsibility of the chairman who is an independent non-executive director. There is a clear division of responsibility between the various roles in the corporate governance structure.



BOARD MEMBERS DURING 2005

Name	Executive	Non-executive #	Independent Non-executive	Race W=White B=Black	Gender M=Male F=Female
JJ Geldenhuys			•	W	M
SC Gilbert	•			W	M
JG le Roux			•	W	M
NM Magau			•	B	F
AR Martin			•	B	M
EA Moolla			•	B	M
JE Newbury			•	W	M
P de V Rademeyer		•		W	M
MJ Reyneke	•			W	M
GE Rudman		•		W	M
DK Smith					
(Chairman)			•	W	M
BP Vundla			•	B	M
J van Zyl		•		W	M

Directors of Sanlam Limited

Changes during the year under review

Mr EA Moolla was appointed to the board in August 2005 for the year under review.

BOARD CHARTER

Objective

The charter sets out the specific responsibilities to be discharged by the board as a whole and by each of the directors, executives and officers individually in terms of the company's articles of association, the Companies Act, the Short-term Insurance Act as well as the JSE Listing Requirements. These documents are a reference point for directors, executives and officers on how to conduct their affairs and dealings in respect of, and on behalf of, the company.

Salient features of the charter

A. Reserved powers of the board

The board's key purpose is to ensure the company's prosperity by collectively directing its affairs, whilst meeting the appropriate interests of its stakeholders. The Memorandum and Articles of Association of the company sets out the powers of the board of directors and the Companies Act of 1973, the common law as enforced in the courts of the country and the Delegation of Authority document, which the board approved on 28 May 2002, (and amendments thereto from time) govern the exercise of these powers. The board embraces the Code of Practices and Corporate Conduct in the King II report and the recommendations therein.

The matters reserved to the board are as follows:

- Approval of:
 - The company's strategic objectives, business plans, annual budgets and the monitoring of the company's performance against set objectives,
 - Annual financial statements and interim reports,
 - The company's code of ethics and Delegation of Authority framework,
 - Appointments and removals of directors, executive management and the company secretary,
 - Significant changes in accounting policy,
 - Significant capital expenditure, and
 - Financial risk management and capital policy.
- Consideration of the company's degree of risk aversion with respect to financial business and sovereign risks,
- Composition of the board and board committees,
- Risk management and internal controls, and
- Board evaluation.

The board regularly reviews the Charter in line with the principles of good Corporate Governance.

B. Responsibilities and accountabilities

Chairman

The chairman brings firm and objective leadership to the board of directors. The chairman's primary function is to preside over directors' and shareholders' meetings and to ensure the smooth functioning of the board in the interest of good governance.

Chief executive

The chief executive has a critical and strategic role to play in the operational success of the company's business.

Executive and non-executive directors

The directors of the company have a fiduciary duty to exercise due care and skill in carrying out their mandate as directors of the company. In exercising their fiduciary duty the directors will ensure that they act in the best interest of the company at all times and shall in no way derive any profit as a result of the fiduciary relationship with the company.

Board committees

The committees assist the board in discharging its duties and responsibilities. The ultimate responsibility rests with the board and as such the board will not abdicate this responsibility to the committees. The responsibilities of the committees are contained in their respective charters, as approved by the board. The chair of each of the committees makes a presentation to the board on issues tabled for discussion at the committee meeting.

Group secretary

All directors have access to the advice and services of the group secretary, who provides guidance to the board as a whole and to individual directors with regard to how their responsibilities should properly be discharged in terms of applicable legislation and regulations, and in the best interest of the company.

C. Board composition and mix

The board recognises that its effectiveness depends very much on its composition. There is an appropriate balance of power and authority in the board. The Human Resources Committee assists the board annually in evaluating the effectiveness of the board.

D. Board appraisal

The board regularly reviews the mix of skills, experience and effectiveness of the directors with a formal evaluation questionnaire developed in line with the recommendations of the King II report.

E. Dealing in securities

The policy on Dealing in Securities sets out the procedure that a director should follow before he or she or any of their associates, as defined in the JSE Listing Requirements, deal in the company's securities. Directors must obtain the written authorisation from the chairman when dealing in securities. In terms of the policy, directors, executive and senior management must comply with the JSE Listing Requirements when dealing in the company's securities. Employees are prohibited from trading in securities as a result of information they may obtain by virtue of their employment in and during closed periods within the company. In terms of the policy, directors' dealings in securities are disclosed to the JSE Securities Exchange via the company's JSE sponsor, Investec Securities Ltd.

F. Integrated sustainability reporting

The board recognises that there are qualitative issues, which influence the ability of the company to create value in the future. These relate to investment in human and other intellectual capital, the extent of the company's social transformation, ethical, safety, health and environmental policies and practices. The board has established a Sustainability committee that convenes at least twice per annum reporting directly to the board on, inter alia, the above-mentioned issues.

MEETINGS AND ATTENDANCE

During the period under review, the board met four times. The board schedules to meet at least once every quarter.

Attendance of directors at board meetings was as follows:

BOARD MEETINGS				
	February 22/02/05	May 27/05/05	August 23/08/05	November 21 & 22/11/05
JJ Geldenhuys	•	•	•	•
SC Gilbert	•	•	•	•
JG Le Roux	•	•	•	•
NM Magau	•	•	•	•
AR Martin	•	•	•	•
EA Moolla	—	—	•	•
JE Newbury	•	•	•	•
P de V Rademeyer	•	•	•	•
MJ Reyneke	•	•	•	•
GE Rudman	•	•	•	•
DK Smith	•	•	•	•
J van Zyl	•	•	•	•
BP Vundla	•	•	•	•

Key : (•) = Present (A) = Absent (—) = Not appointed

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Human Resources Committee ensures that the board's composition reflects diversity in demographics, appropriate mix of skills and experience as well as gender.

Executive and non-executive directors are subject to rotation once every three years. Shareholders have the right to nominate a director. Five other shareholders must second the nomination. An abridged CV of the nominated director is sent with the notice fourteen days before the Annual General Meeting (AGM). At the AGM, the shareholders will vote by a single resolution to determine whether the director will be appointed. Directors appointed after the AGM are required to step down at the next AGM to be re-elected by the shareholders.

BOARD COMMITTEES

Audit and Risk Committee

AUDIT & RISK COMMITTEE MEETINGS				
	15/02/2005	16/05/2005	15/08/2005	14/11/2005
JJ Geldenhuys	•	•	•	•
AR Martin	•	•	•	•
P de V Rademeyer	•	•	•	•
GE Rudman (Chairman)	•	•	•	•

Key : (•) = Present (A) = Absent (—) = Not appointed

The primary function of the Audit and Risk Committee is to assist the board in fulfilling its oversight responsibilities for financial matters and risk management activities. The committee has adopted formal terms of reference that the board has approved. A non-executive director chairs the committee, which is made up of non-executive directors only. It performs this function by:

- Promoting the overall effectiveness of corporate governance within the company.
- Ensuring that management creates and maintains an effective control environment with adequate internal, financial and operating controls within the organisation.
- Overseeing the strategic risk management process and monitoring the quality, integrity, reliability and effectiveness of the process. Assisting the board in the discharge of its duties relating to corporate accountability and the associated risk in terms of management, assurance and reporting.
- Co-ordinating and overseeing the effectiveness of internal audit (incorporating forensic investigations), the compliance function and external audit, as well as that of management in preparing financial reports.
- Enhancing the quality, effectiveness, relevance and communication value of the published financial statements and other public documentation issued.
- Providing the board with an independent point of reference in seeking a resolution to issues that demand interpretation or that are controversial and that affect the published financial statements and other public documentation issued.
- Acting as an effective means of communication between the board on the one hand and the external auditors, the head of internal audit and management on the other.

The Audit and Risk Committee is satisfied that it fulfilled its responsibilities under its terms of reference for the period under review. During the period under review, the Audit and Risk Committee met once every quarter prior to the board meeting.

Human Resources Committee

HUMAN RESOURCES COMMITTEE MEETINGS			
	15/02/2005	11/05/2005	11/11/2005
JG Le Roux	•	•	•
JE Newbury	•	•	•
DK Smith (Chairman)	•	•	•
J van Zyl	•	•	•

Key : (•) = Present (A) = Absent (—) = Not appointed

The Human Resources Committee combines the roles of a remuneration and nominations committee (as defined in the King II report). The board is of the opinion that the two functions are inter-related and has set the terms of reference of the committee to adequately cover the two functions without compromising appropriate governance standards in the company. An independent non-executive director chairs the committee that is comprised of non-executive directors only. The chief executive attends meetings by invitation, but does not participate in discussions and decisions regarding his own remuneration and benefits. The terms of reference give the committee the responsibility and authority to consider and make recommendations to the board on the following matters, however not limited to:

- Succession planning,
- Employee issues,
- Remuneration policy and performance bonuses,
- Executive remuneration,
- Composition of the board and board committees in terms of size, diversity, skills and experience,
- Composition of top management in terms of diversity, skills and experience, and
- Share Incentive Trust and Share Option Scheme policy.

The committee uses external market surveys and benchmarks in determining the executive directors' remuneration and share option allocation. The company's remuneration philosophy recognises that remuneration packages should be structured in such a way that long and short-term incentives are determined according to the achievement of the business objectives and the delivery of shareholder value.

Fee scales payable to non-executive directors will be submitted to shareholders at a general meeting before implementation and payment in 2006.

The committee annually performs an assessment of the effectiveness of the board. A formal assessment of the board committee members was undertaken in November 2005. The assessment deals with issues such as the board's role and agenda setting, the board's size, composition and independence, director orientation and development, board leadership and teamwork, meetings and effectiveness, performance evaluation, remuneration and ownership, succession planning, ethics, stakeholder relations and overall effectiveness. This committee reports the findings of the assessment to the board.

Remuneration policy

The Human Resources Committee monitors the development and implementation of the group's remuneration philosophy. The total remuneration packages of executives are designed in such a way that a substantial portion is performance-related; as such their eligibility for an annual bonus is linked to appropriate group targets.

Succession planning

In terms of its mandate from the board, the Human Resources Committee ensures that a proper plan to identify and select appropriate candidates to fill board and top management vacancies exists. The committee manages this process through constant interaction with the executives and annual assessment of competency levels.

The financial statements accompanying this report reflect the total executive and non-executive directors' earnings and other benefits in accordance with the requirements of the Companies Act of 1973 and the JSE Listing Requirements.

The Human Resources Committee is satisfied that it has fulfilled its responsibilities under its terms of reference for the period under review.

Sustainability committee

SUSTAINABILITY COMMITTEE MEETINGS		
	22/08/2005	10/11/2005
JG Le Roux	•	•
NM Magau (Chairperson)	•	•
BP Vundla	•	•
Key : (•) = Present (A) = Absent (–) = Not appointed		

The main function of this committee is to actively manage sustainability in order to:

- Meet moral duty to provide secure accessible risk management for the company's clients.
- Meet legal recommendations and requirements such as King II, JSE Listing Requirements, Legislation and the Financial Sector Charter targets.

- Minimise risks associated with social, economic and environmental impacts including stakeholder activism and government regulation.
- Add value through
 - Enhancing a reputation as a responsible organisation;
 - Driving transformation issues;
 - Build a reputation as an employer of choice;
 - Decrease costs through reduced waste and energy usage;
 - Improving staff morale; and
 - Improving management of HIV and Aids and other risks;

The Sustainability Committee consists of no less than three independent non-executive directors appointed by the board. The following members of the executive management support the committee in its tasks: Human Resources, Insurance Services, Corporate Citizenship and Finance.

The Sustainability Committee meets as often as is necessary for the effective performance of its duties. This committee shall, however, convene formally at least twice a year.

Executive Committee

Though not a board committee, this committee – in terms of the company's Delegation of Authority framework – is mandated by the board to deal with the day-to-day running of the affairs of the company. The Human Resources Committee appoints and determines the remuneration of the members of this committee on the recommendation of the chief executive and with the approval of the board.

The chief executive chairs this committee, which comprises the executive management of all the significant business units of the company. It meets weekly and deals with all matters relating to the implementation of the agreed strategy, the monitoring of performance and the consideration of the company's policies. The board reviews the levels of delegated authority to this committee annually.

Investment Committee

This committee, reporting to the executive committee, meets quarterly to evaluate and monitor the investment portfolio and the performance of investment managers. The investment committee is guided by the board with regard to the investment managers mandates. They further make recommendations to the board regarding the company's investment philosophy.

DELEGATION OF AUTHORITY

The objective of the Delegation of Authority document is to present an approval framework within which the company could be optimally managed within a decentralised management environment. A general authority is granted by shareholders at a general meeting to the board of directors to collectively manage the company. The board, in turn, delegates the power to run the day-to-day affairs of the company to the executive committee, and the executive committee, in turn, may delegate some of these powers. The Delegation of Authority document codifies and regulates any such delegation of authority within the company.

RISK MANAGEMENT AND INTERNAL CONTROL

The company's board recognises and acknowledges that it is accountable for the total process of risk management and the system of internal control for the group. It is accountable for the establishment of appropriate risk and control policies and for communicating these policies throughout the group.

It also confirms that the process of risk management and the system of internal controls are regularly reviewed for effectiveness.

An ongoing risk management process for identifying, evaluating and managing significant risks have been in place for the period under review up to the date of approval of the annual report and financial statements. Management operates an adequate system of internal control to mitigate those significant risks identified to an acceptable level. The

company's system of internal control is designed to manage rather than to eliminate the risk of failure to achieve business objectives. Any system can only provide reasonable assurance against material misstatement or loss.

Strategic enterprise risk management process (SERM)

The company's focus to be recognised as the best in everything it chooses to do, poses challenges to deliver good sustainable results. In a world that is fast paced, constantly changing, globally competitive and technologically innovative, the board and management cannot rely on old-established strategies and practices. It must adopt strategic risk management practices and take calculated risks to achieve results.

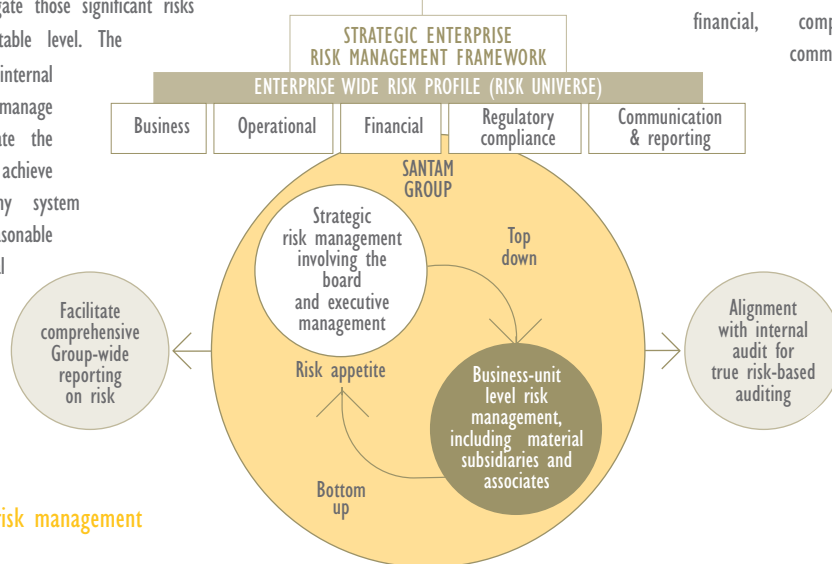
The company's approach to risk management and control has evolved over a number of years, and was further reviewed and refined during 2005. The approach, practices and policies are in line with the King II report on corporate governance standards in South Africa and the enterprise risk management framework discussed in the COSO (Committee of Sponsoring Organisations of the Treadway Commission) report. The Santam Group's risk philosophy is underpinned by its objective of shareholder value creation and has adopted the COSO definition, which reads that: "Strategic enterprise risk management is a process, effected by the board, management and other personnel, applied in strategy setting and across the enterprise, designed to identify potential events that may affect the entity, and manage risks to be within its risk appetite, to provide reasonable assurance regarding the achievement of the entity's objectives."

Risk management in the Santam Group is guided by several principles, the most important being:

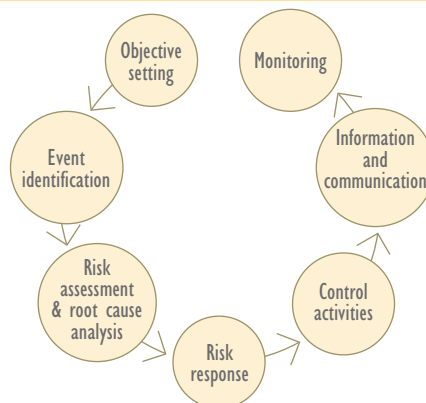
- The Executive committee, line management and employees remain accountable to the board, who is ultimately responsible for the risk management process, in terms of the design, implementation, embedding and monitoring of the risk management process at Santam.

- The enterprise risk management function facilitates the risk management process, assist line managers to implement the risk management process, and ensures that the risk management process is suitably reviewed and updated to meet the needs of the business, to keep abreast of best practice development and to address new elements of risk in Santam.
- The implementation of an integrated holistic risk management framework which include business, operational, financial, compliance/regulatory and communication/reporting risks.

- Risk management is a process, which should be practical, aligned and incorporated in the current management processes, i.e. strategic planning, performance management, key performance indicators.



RISK MANAGEMENT PROCESS



Overall risk management policies are set on a comprehensive, organisation wide basis by senior management, and reviewed, where appropriate by the board of directors. These policies have been converted into practical guidelines that have been communicated throughout the Santam Group. An independent review of the risk management process was conducted during 2005 and the conclusion was that key risk management procedures are in place.

The board is responsible for overseeing the risk management process and the adequacy and effectiveness of the risk management function of Santam and has tasked the Audit and Risk Committee to assist in this regard. The Audit

and Risk Committee has a board-approved charter that is in line with best corporate governance practices. The Audit and Risk Committee meetings on 16 May 2005 and 14 November 2005 focused on risk management and control and a report on the status was tabled at the subsequent board meetings. A risk management report is prepared on a quarterly basis and is a standard agenda item at every Audit and Risk Committee meeting.

The company's SERM framework facilitates both the "top-down" as well as the 'bottom-up' view of risk. This is achieved through involving the board and executive management, as well as business unit management in the risk management process. The executive committee manages and monitors the top-down risk profile. This is also reported on to the Audit and Risk Committee on a six monthly basis and included in the risk-based internal audit plan. This profile is revisited on a quarterly basis to identify emerging risks.

The top risks identified by business unit management is collated in a risk management tool, and regularly analysed to identify trends and emerging risks. This is reported to executive management and the Audit and Risk

Committee on a six monthly basis.

BUSINESS CONTINUITY

Within the company, the overall purpose of business continuity management is to ensure that the company has the capability to recover as quickly and effectively as possible from an unforeseen disaster or emergency, which interrupts normal business operations. The group wide business continuity framework facilitates a process that focus on ensuring that people are prepared, crisis infrastructure is tested and that there are meaningful plans in place.

A Business Continuity Steering Committee has been mandated to ensure that Santam has "Continuity of Business" capability if a crisis strikes. A member of the executive management team chairs the committee and the members represent the various business units in the group. The BCP programme is centrally co-ordinated and all management and staff are expected to fully support the process. Plans have been rolled out for all businesses. A certification process was completed to ensure that businesses are complying with the overall BCP framework. Testing, exercising, training and maintenance of BCP's are currently ongoing and progress is reported to executive management. The BCP capability is audited annually to ensure adequate processes have been implemented and are being complied with. The most recent audit concluded that good progress was made and recommended improvements have been actioned by management for implementation in 2006.

The BCP programme is recognised as a continuous process to ensure that technology, processes and people throughout the organisation remains ready to respond to an unforeseen disaster or emergency when required.

INTERNAL CONTROL

To enable the directors to meet their responsibilities, management implements systems of internal control, comprising of policies and standards, procedures, systems and information to assist in established objectives and goals to be achieved. The group's system of internal control is designed and operated to support the identification and management of risks affecting the group and the business environment in which it operates. As such, it is subject to continuous review as circumstances change and new risks emerge.

Key features of the group's system of internal control comprise:

- Written policies and procedures, which are detailed in policy manuals, clearly defined lines of accountability and delegation of authority, and comprehensive reporting against approved standards and budgets.
- Minimising of risks by ensuring that the appropriate infrastructure, controls, systems and people are in place throughout the business. Key policies employed in managing operational risks involve segregation of duties; transaction authorisation; monitoring, and financial and managerial reporting.
- Bi-annual appraisal procedures to assess individual performance against agreed objectives and identify training needs to maintain and enhance standards of performance.

Self-monitoring mechanisms, the strategic enterprise risk management process and the system of internal control ensure that weaknesses are addressed as and when identified and, in conjunction with monitoring by the internal and external auditors, reasonable assurance is provided regarding the reliability of financial information and the presentation thereof in stakeholder communication.

It is considered that the company's system of internal controls provides reasonable assurance regarding the achievement of organisational objectives with respect to:

- The effectiveness and efficiency of operations,
- The safeguarding of the company's assets (including information),

- Compliance with applicable laws, regulations and supervisory requirements,
- Supporting business sustainability under normal as well as adverse operating conditions,
- The reliability of reporting, and
- Behaving responsibly towards all stakeholders.

In co-operation with the internal auditors, representation letters dealing with controls and compliance are completed and formally confirmed by executive management. Reporting on the level of effectiveness with which these risks are managed, including any significant weaknesses, is provided to the full board of directors.

Assurance providers

The main internal assurance provider in the Santam Group is the Audit & Forensic Services Department. This department has four main functions, which includes corporate governance, enterprise risk management, forensic services and internal audit. Forensic services focuses on pro-active fraud prevention and forensic investigations into employee, business partners or client fraud or misconduct.

The responsibilities of the department are set out in a charter approved by the Audit and Risk Committee. The scope of work encompasses all aspects of the company's business activities and the Audit and Risk Committee approves the annual assurance plan. The internal audit plan is risk-based and linked to the company's strategic enterprise risk management process. Findings from examinations and reviews are reported directly to the Audit and Risk Committee quarterly.

The company combines the internal audit function and the enterprise risk management facilitation function in one department for greater efficiency at the company. This aids the alignment and co-ordination of internal audit and risk management activities within the company resulting in a more focused risk and control effort. An independent review was performed by an external independent party of the strategic enterprise risk management processes within Santam and concluded that the processes compare favourably with the experiences of good practices and identified no significant weaknesses.

The head of internal audit reports administratively to the executive head of corporate services and has regular meetings with the chief executive, quarterly meetings with the Audit and Risk Committee, and access to the chairman of the Audit and Risk Committee as and when required.

The compliance function is incorporated in the Corporate Legal Services Department. The Audit and Risk Committee approves their assurance plan and findings from examinations and reviews are also directly reported to the committee quarterly.

Board review

In conducting its annual review of the effectiveness of internal control, the board considers the key findings from the ongoing monitoring and reporting processes, executive management confirmation and independent assurance reports. Consideration was given to other relevant input, including reports from internal and external auditors, reports from other assurance providers, and the strategic enterprise risk management process. Where necessary, programmes for remedial action have been initiated.

Nothing has come to the attention of the directors, or to the attention of the external or internal auditors to indicate that any material breakdown in the functioning of the internal controls and systems occurred during the year.

Accounting and auditing

There is regular interaction and consultation between internal and external

auditors, as well as other internal assurance providers, for example the quality assurance functions in the claims and underwriting departments and the compliance officer. Audit and Forensic Services chair the Santam Assurance Forum, where internal assurance providers meet to co-ordinate their efforts, discuss matters of mutual interest and potential risk areas, highlight critical matters of concern and exchange working papers, management letters and reports.

Use of external auditors for non-audit services are governed in terms of a policy approved by the Audit and Risk Committee. The services rendered by the external auditors are monitored and approved by the Audit and Risk Committee quarterly. Non-audit services rendered by the group's external auditors amounted to R1,576 million. This includes R865k for assurance related services, R579k for tax related services and R132k for other services.

ETHICS — ACTIONS SPEAK LOUDER THAN WORDS

The company has institutionalised internal ethics initiatives in the form of a specific programme with clear constitutive components. The Total Ethics Management Programme (TEMP) is designed to establish Santam as an ethical organisation. The TEMP gives life to the company's guiding values, creates an environment that supports ethically sound behaviour, and instills a sense of shared accountability among employees. In this way, values informs and drives compliance. Santam is in agreement with King II that the institutionalising of ethics in an organisation is necessary in order for it to be effective.

During 2005 Santam launched new brand values following a widely consultative process. The company's purpose statement — to be recognised as the best in everything we choose to do — is a huge challenge to all Santammers, and the new values will help to live up to this statement every day.

The four brand values sum up who the people at Santam are. The work of building the Santam brand around these values has begun. These values are words of action, which define the way that business is done.

- Always flexible — strive to offer alternatives, be adaptable, go the extra mile
- Notably professional — take pride in work and use skills and knowledge to deliver the best at all times
- Totally passionate — be madly enthusiastic and dedicated
- Sustained stability — whatever is undertaken, is for the good of the brand and all of its stakeholders.

The company has a code of ethics which identifies policies and procedures and which is updated from time to time. The Code is available to all employees and forms the basis of disciplinary action. New employees are familiarised with the Code at induction and various communication initiatives have been performed as part of general ethics awareness.

The Ethics Committee consists of representatives from the various business units and meets quarterly. Reporting is done to the Sustainability Board Committee and the Chief Executive. The committee has adopted a charter that spells out its purpose and responsibilities. Although no formal

ethics education programme has been launched yet, some ethics decision making skills have been communicated via written and electronic media.

A formal written disciplinary process focuses on enforcement via disincentives, such as warnings, reprimands, and discharge. The company is exposed to the risk of fraudulent behaviour, both from external and internal sources. Although not immune to this type of behaviour, Santam does not tolerate it. The Fraud Policy clearly states this attitude. Ongoing fraud awareness is an important factor in combating crime and unethical behaviour and the campaign culminates in a fraud awareness day. The hot-line provides the means of reporting fraud and unethical behaviour and the right of an individual who wishes to retain their anonymity, is respected. The company is committed to investigating all discovered or suspected fraud. Audit and Forensic Services determines the scope of

Some policies and procedures

- Ethics Committee
- Code of ethics
- ANTS values
- Gratuities policy
- Gifts register
- Conflict of interest policy
- Communication
- Hot-line

these investigations, depending on the size, nature and complexity of the individual cases.

An independent assessment was performed of organisational values and vulnerabilities. This survey was performed during the end of 2005 and results are expected early in 2006.

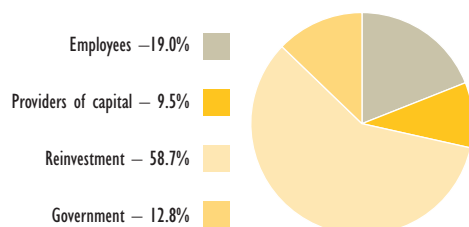
These values will propel us forward, and having shared values means that we'll have a common focus and common approach to the manner in which we conduct our business

Steffen Gilbert

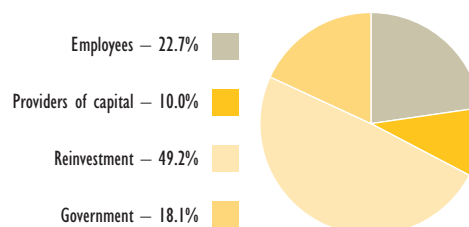
VALUE ADDED STATEMENT

VALUE ADDED	2005 R million	2004 R million
Gross written premium	11 355	9 735
Claims paid and cost of other services	8 854	7 686
	2 501	2 049
Investment income	1 592	1 301
	4 093	3 350
VALUE DISTRIBUTED		
Employee benefits	779	760
Government	523	607
Direct taxation on income	520	604
Regional Service Council levies	3	3
Providers of capital	389	334
	1 691	1 701
Retained for reinvestment and future support of business	2 402	1 649
Depreciation	22	25
Retained income before transfer to reserves	1 778	1 439
Compulsory reserves for future support of business	602	185
	4 093	3 350

Value distributed — 2005



Value distributed — 2004





“Our country
has entered its
Age of Hope.”

Thabo Mbeki

THE SUSTAINABILITY UMBRELLA

To be recognised as the best

Santam's declared purpose is to be recognised as the best in everything the company chooses to do. Recognition is the outcome of sustained effort and success, effectively reported to stakeholders. Achieving sustainability requires that the company nurtures each ingredient that contributes to the sustained success of its short-term insurance business. The financial section of this report does not comprehensively cover these ingredients even though they are of equal importance to shareholders, the wider investment community and indeed all entities that have a stake in the ongoing success of the business.

Informed by standards

There is a range of frameworks that can be used for sustainability reporting. Internationally, the Global Reporting Initiative's (GRI) Sustainability Reporting Guidelines and AccountAbility's AA 1000 Stakeholder Engagement and Assurance Standards are widely followed. Locally, Section 4 of the King II Report on Corporate Governance, 2002, recommends that local companies "...should report at least annually on the nature and extent of their social, transformation, ethical, safety, health and environmental management policies and practices".

Of particular relevance to Santam are the Financial Sector Charter's (FSC) performance indicators and the DTI Codes of Good Practice. While both of these describe similar core elements, they are arranged differently and require the attainment of different targets. The FSC includes industry-specific elements of 'access to financial services' and 'empowerment financing' (see tables on page 47 for further detail). Finally, the JSE SRI Index offers a limited number of companies an opportunity to gain exposure as 'socially responsible' public companies.

The aforementioned frameworks inform Santam's approach to sustainable business development. As the foremost short-term insurance provider in the country, the company is committed to leading transformation within the industry to the benefit of all stakeholders.

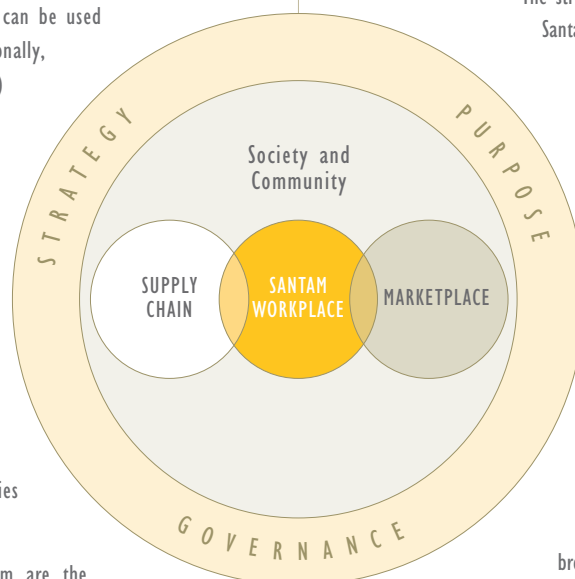
FSC and DTI scorecards

COMMON TO BOTH

- Ownership and control
- Human resource development (employment equity and skills development)
- Procurement and enterprise development
- Corporate social investment

FSC-SPECIFIC

- Access to financial services
- Empowerment financing



Focused on stakeholders

The guiding principles of sustainability reporting, as promoted by many of the standards above, recognise the unique nature of individual companies. In this regard, a company is understood to exist through its relationships with significant stakeholders. Therefore, its reporting ought to focus on issues that are material and relevant to the business and these relationships. The company's own action plans should inform set targets, against which the company should track and report on its progress.

Santam recognises that it is accountable primarily to its shareholders, clients, brokers, suppliers, government, and communities across South Africa.

Structure and framework of this report

The structure of this report (see diagram) reflects Santam's view of its role within its stakeholder community and leads with the company's purpose and strategy and the governance of sustainability issues. This is followed by Santam's policy towards developing, transforming and securing a loyal supplier base now and into the future. Looking within the company itself, the workplace section sets out Santam's approach towards providing a winning environment for its people, while the marketplace section offers a view of Santam's commitment to developing and enriching its relationships with clients throughout the economy and the broker-centred distribution chain. Finally, the report gives insight into the manner in which Santam is contributing positively to society.

Within this framework, each element is analysed in terms of Santam's sustainability strategy and the country's transformational imperative. Santam's policy or approach to each issue is described, thus offering a view of the company's current status and comparing this with trends and targets to be achieved in future.

The report ends with tabulated information that correlates directly with the FSC and the GRI Index.

SUSTAINABILITY AND SANTAM'S BUSINESS PLAN

Purpose and strategy

Responding to a developing market

Santam has achieved outstanding results over the last three years, and we intend to maintain our position as the market leader. Although changing circumstances in the marketplace and advances in technology pose potential risks, our sustainability strategies are constantly evolving to take these into account. Gaining an advantage from these has required that the company review its purpose and strategy for the medium and long-term future of its business.

For example, Santam recognises its duty to make available its services to people in the uninsured market segment in order for all of South Africa's

people to participate in the economic cycle. This represents a challenge that advances in technology are rendering increasingly attainable. What was previously viewed as a challenge is evolving into a real opportunity for an eventual return on investment.

Achieving this transformation of the market must be accompanied by increased diversity in the workforce, and a willingness to embrace change and develop flexible products and systems to complement the shift in the business paradigm. Likewise, the distribution channel will be equipped to sell to and service a broader diversity of clients in future.

Anticipating business risks

Business risks are changing. The short-term insurance market is notorious for its high churn rate, the HIV and Aids pandemic is an ongoing concern, government and industry regulations can influence the unprepared and national imperatives for economic transformation — particularly of the supplier base — are putting pressure on the short-term insurance industry.

Looking at broader trends, the environment is under increasing threat from humankind's exploitative practices, while South Africa's population is still characterised by increased disparities between the rich and poor.

All of these matters have informed Santam's long-term thinking on the company's continued business success.

To be recognised as the best in everything we choose to do

Starting in November 2004 and continuing through 2005, Santam developed a new purpose and strategy, called Santam 2010. Together, the six strategic thrusts of this programme aim to achieve satisfied shareholders and delighted clients by means of efficient processes and a motivated and prepared workforce.

These are:

- **Client focus** — Build the best business around the client
- **Market expansion** — Develop a future market and profitably grow the business in chosen existing and new, local and international, markets
- **Distribution channel development** — Offer the widest range of distribution choices in the most efficient and optimised way (best fit for partner and client)
- **Increased efficiency** — Maximise efficiency in everything we do
- **Exploiting technology** — Explore and use technology in building the best business
- **Ignite human capital** — Attract, develop, and retain the right people, with the right skills, in the right places, who think the right way

This strategy focuses on long-term sustainability and takes into consideration the importance of improving the company's value proposition for each of its defined stakeholder groups.

Consultative process

Translating Santam's purpose into a strategy with goals and action for implementation was a consultative process involving nearly everyone at Santam. Four 2010 discussion sessions involving 800 Santam employees were convened in order to workshop 2010 implementation initiatives. Subsequently, a board strategy session was held in April 2005.

Initiatives that delegates rated high in priority were published in the May edition of Santamos.

Implementation

Following the creation of Santam's 2010 strategy, the company has entered the implementation phase, comprising four elements:

- **Strategy map** — at planning sessions, the strategy has been translated into a strategy map pertaining to each area of the business
- **Balanced scorecard** — this management tool is being used as a framework for implementing and monitoring Santam's strategy
- **Targets & initiatives** — operational and action plans are being created to tell each team exactly what they need to do to be the best
- **Personal objectives** — Individual Result Areas will be strategically aligned to direct each employee in exactly what is required of him or her

The impact of global warming

Scientists predict that rising temperatures will exacerbate South Africa's climate extremes over the next 50 years. It is predicted that the Western Cape will become hotter and drier, which will increase the risk of fires, while areas in the East of the country will experience increased rainfall and floods.

Values supporting change

Running in tandem with Santam's 2010 Strategy process is the Santam LIFE initiative, for which the company has developed four brand values, known as ANTS:

- Always flexible
- Notably professional
- Totally passionate
- Sustained stability

These values support a change management process currently underway at Santam that aims to encourage employees of Santam to uphold the values of the Santam brand to the outside world. The ANTS campaign is particularly

powerful in communicating the importance of sustainability issues such as health, product ethics, corporate social investment, and diversity in relation to the long-term prospects of the business.

Santam's strategic outcomes

Satisfied shareholders

Delighted clients

Efficient processes

Motivated & prepared workforce

Governance and sustainability

Conducting business with accountability and integrity

Santam is committed to the highest standards of corporate governance as defined in the King II Report on Corporate Governance. As a short-term insurance business, the company recognises the importance of balancing, as closely as possible, the interests of individuals with those of the company and with the broader interests of society. In pursuit of this balance, Santam is guided by and complies with the recommendations of the Code of Corporate Governance (see Governance report on page 19).

Leadership and structure

Santam's Board of Directors is responsible for the company's governance policy, including an oversight function in terms of the company's emerging sustainability strategy.

The Sustainability Committee (developed from the previously formed BEE Committee) is a subcommittee of the board that takes overall responsibility for the development and implementation of the sustainability strategy, as well as communication with Exco and the board. The committee consists of three non-executive board members.

The Executive Committee (Exco) consists of the executive heads of each function within the business. The role of this committee is to manage the business at the levels of operation and strategy.

Governance of BEE

As a core component of sustainability in the South African context, governance of BEE in Santam is also the responsibility of the Sustainability Committee. A number of important principles guide management in the ongoing transformation of the company:

- Promote active, visible, and energetic leadership, starting with the board and Exco
- Integrate the imperative for BEE into the company's business strategy
- Develop a culture throughout the company that is supportive of BEE
- Make line management accountable for employment equity performance
- Set realistic targets
- Ensure that all Santam's suppliers and business partners meet basic requirements for BEE and disclose their performance to Santam
- Monitor and evaluate performance
- Be transparent in reporting.

Governance activities

In addition to the Sustainability Committee, Santam has also created the Sustainability Working Group that includes operational staff members from each of the represented areas. During the course of 2005, both the Sustainability Committee and the Sustainability Working Group convened twice to develop Santam's sustainability agenda.

In fulfillment of a commitment made last year, the Sustainability Working Group has engaged sustainability consultants, Trialogue, to inform Santam's leadership about sustainability issues, and to assist in putting together a sustainability framework that can serve as a foundation for building the company's capacity to develop and entrench sustainability within Santam.

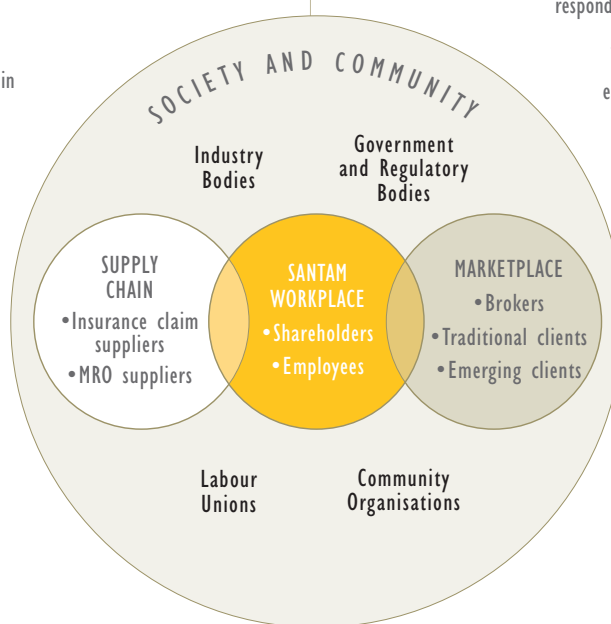
Assurance

While Santam actively measures and keeps record of its policies, activities and performance as an integral function of its business operations, the company recognises the need to formalise this within a dedicated sustainability framework. Achieving this will contribute to enhancing and providing assurance about the accuracy, completeness and reliability of the sustainability report.

Stakeholder engagement and consultation

Stakeholder engagement has a definite purpose and outcome for Santam's long-term business success. In order to delight clients with its product offering and ongoing service, Santam strives to communicate with its stakeholders constantly, actively sensing and responding to changes in this environment.

The next section of this report discusses each stakeholder, their importance to Santam, and the company's response to developing their mutual relationship and improving its business model for sustainable growth.



PROCUREMENT

A supply chain of SMMEs

An environment for empowering broad-based BEE

Santam views enterprise development as a fundamental and important mechanism for bringing black businesses and SMMEs into the mainstream of the economy. While Santam is guided by the FSC as well as the DTI Codes, the company takes its own independent, long-term view of its business environment and has adjusted its procurement practices accordingly.

Traditionally, the supply base in the short-term insurance industry claims environment is largely made up of small, medium, and micro enterprises. Motor-related claims form around 80% of all claims, drawing mostly on motor body repairers, auto glass suppliers, and tow-truck operators. The remainder is made up of consumer electronic suppliers, jewellers, building-related contractors, plumbers, builders and other miscellaneous categories.

An important ingredient for any vibrant economy is a healthy community of small, medium, and micro enterprises. These small businesses are the largest source of new entrants into the economy, and absorb more labour than any other sector. They also form the ultimate experiential learning environment for economic growth and development.

DTI Codes

The FSC Charter Council has applied for the conversion of the Carter into a Code under Section 9 of the BBEE Act (No. 53 of 2003), subsequent to the issuing of the Codes of Good Practice by the Department of Trade and Industry. The Council is mindful of the fact that the Charter may have to be aligned to the Codes insofar as definitions and measurement is concerned. In principle, a commitment has already been made to voluntarily align to the employment equity and procurement elements of the Codes. Santam will align its systems, processes, and procedures to these developments.

Santam's procurement practices

Santam's procurement policy aims to ensure an optimal value proposition for its policyholders and takes into consideration matters such as service, quality, commercial considerations and BEE profile, while simultaneously ensuring a fair and equitable dispensation for the interaction between Santam and its supply base. Nurturing the small business environment and actively directing spend towards black entrepreneurs is a specific focus of operations.

The intent underlying the transformation of Santam's supply base is to:

- Increase the number of black suppliers (including black empowered and black influenced)
- Increase the amount spent on such black suppliers
- Identify and remove possible barriers to black suppliers
- Create a culture within the procurement business unit that supports procurement from black suppliers.

Santam Ethics

- Ensure fair competition
- No accepting favours in return for business
- Record and disclose gifts and hospitality
- No information used for personal gain
- No use of information to advantage any tenderer or disadvantage Santam

Santam's ethics policy is an integral part of the company's procurement practices and informs decisions on everything from strategy and sourcing to buying at operational level.

BEE procurement strategy

Santam's objectives are to:

- Promote a procurement culture that is conducive to BEE
- Set targets, and review and manage these annually
- Integrate BEE objectives with the company's business objectives
- Compel all suppliers and business partners to meet basic requirements in respect of BEE in all its component areas
- Promote the development of SMMEs amongst Santam's suppliers
- Promote the development of suppliers and contractors from historically disadvantaged communities
- Remove barriers for SMME suppliers as well as contractors from historically disadvantaged communities
- Report timeously and accurately on its progress in implementing BEE.

Leadership and responsibility

Santam recognises the importance of its supply base in relation to the successful outcome of its business initiatives. The management of the supply dimension of its business is therefore a specific area of focus with relevant skills and resources being allocated accordingly. A centrally-managed procurement unit is responsible for procurement strategy, policy, and strategic sourcing with the Head of Procurement reporting to the Executive Head of Insurance Services.

Performance

BEE performance targets

In support of the FSC, the performance appraisals of staff members concerned with procurement include BEE targets. Performance is measured and reviewed monthly, and short-term targets are set to encourage ongoing progress and the ultimate achievement of longer-term goals.

Measurement of BEE procurement performance

Measurement of BEE performance is undertaken as an integral part of Santam's record-keeping system, enabling periodic management reports to be generated and reviewed.

Santam recognises the importance of balancing the transformation of its supply base with optimal service delivery to its policyholders, therefore a structured approach is followed in this regard.

In pursuit of the FSC target of 50% procurement from BEE suppliers by 2008, Santam has adopted a linear growth model, which demands that the company grow its BEE procurement by 8% a year. For 2005, that meant growth of 8 percentage points off the 2004 base of 18%, equating to a yardstick of 26% for 2005. Current performance is in line with this target.

Supplier engagement

Santam views its relationships with suppliers and contractors, who provide substantial support in delivering superior service levels to the company's policyholders, as a very important part of the value offering to clients. These relationships are managed as mutually beneficial arrangements whereby all parties integrate their talents, resources, and actions to provide optimal outcomes, while continuously striving to improve service.

Santam's client-focused business model cannot succeed without a reliable supply chain of the right goods and services, at the right time and place, at the right value. Santam's procurement practices support the creation and maintenance of a good, sound business relationship with the industries the company does business with, as well as with its supply base. The company is also committed to working with suppliers who share its goals of continuous improvement in the delivery of service and quality.

Santam is particularly proactive in its engagement with emerging suppliers who encounter fierce competition in the fragmented supplier market that services policyholders' claims. Attention to this stakeholder group was one of the factors that contributed to Santam developing its own objective supplier selection processes, which support Santam in managing the transformation of its supply base as well as its current relationships in a structured manner.

Enterprise development

In 2004, Santam confirmed its leaning towards preferential procurement by piloting Adopt-A-Shop, a programme aimed at developing black entrepreneurs in the panel beating business. Established body shops were selected to mentor formerly marginalised auto-body repairers. The pilot process tested the idea and proved that with sufficient support from the industry at large, this 'apprenticeship' process was eminently viable.

While Santam has discontinued the programme under its own auspices, it is using its representation on the Procurement and Enterprise Development task team within the South African Insurance Association (SAIA) to lobby for industry support of this worthy initiative.

“When the water starts boiling
it is foolish to turn off the heat.”

Nelson Mandela

THE WORKPLACE

The 2010 engagement breathes new life

The 2010 Strategy process has been a powerful catalyst for change within Santam. The company used the opportunity to approach its business model with a clear mind, and engaged with its most important resource, its employees, in order to arrive at a new strategy and a fresh approach to achieving its goals.

This section of the sustainability report testifies to how the workplace, an environment within Santam's direct control, has responded to the challenges facing the company, including ownership and control, employee equity, organisational and skills development, and HIV/Aids education, testing and counselling.

Ownership and control

Sanlam Limited currently owns 52.85% of Santam through its policyholders' and shareholders' funds. Quantification of indirect ownership in the financial sector is an issue that has yet to be resolved completely by the standards authorities, in particular the FSC and the DTI. Santam has analysed its shareholding component to determine the black economic empowerment component and awaits resolution before making public declarations.

Of the 13 board members, four are black, including a woman. Santam's executive committee has two black members (see page 34).

Empowerment financing

In addition to BEE initiatives pursued by its controlling shareholder, Santam is committed in its own right to black economic empowerment at the level of ownership and control. Thus far the company has concentrated its efforts on the empowerment of distribution organisations through investment, the pursuit of common business opportunities and capacity development. Four of the larger BEE transactions are:

- **Lion of Africa** — The BEE consortium, Brimstone, holds 65% of Lion of Africa, making it the only black-controlled insurance company in the country. The company also benefits from Santam's expertise, infrastructure, and systems.
- **Pamodzi** — Santam facilitated the funding of the Pamodzi Group's investment in the now delisted Alacrity Financial Services (including Prestasi Brokers), and took a 43% interest in Pamodzi in the process. This company is black controlled and owned at company level as well as at broker level. The company specialises in personal lines insurance.
- **Thebe Risk Services** — Santam facilitated the formation of Thebe Risk Services. Thebe Investment Corporation (TIC) has a controlling stake of just over 50% and Santam holds the balance. The company specialises in corporate and commercial product lines and is committed to reaching the lower LSM market.
- **Nova Group** — Santam Risk Finance Limited, a wholly owned subsidiary of Santam Ltd, concluded a deal with Kagiso Treasury services (Pty) Ltd, which is part owned by Kagiso Trust Investments (Pty) Ltd, to sell a third of the company to them. As an integral part of the transaction, Santam acquired the Nova Group comprising Nova Risk and Nova Life, which focus on providing cell captive solutions (a vehicle that allows clients to participate in the insurance business without the burden of having a licence or niche products). This deal creates the first black-empowered South African insurance company specialising in risk finance, cell captive and affinity business.

Employment equity

Diversity unlocks market opportunity

As early as 1998, Santam adopted a policy to diversify its business and its workplace culture in line with market opportunities as well as national transformation imperatives. In view of the Santam 2010 Purpose that specifically calls for the targeting of the previously uninsured market sectors, Santam has intensified its efforts to transform its staff profile through an employment equity process. The company anticipates substantial benefits in matching employee culture with client culture, from product development through to ongoing client service.

Headline numbers

Santam's headcount for 2005 was 2 733 people in full employment, plus 121 part-time employees, 46 FSC learnership students and 37 contractors. Women make up 58.5% of the staff complement and black people 38%. Employee turnover for the year was 9.38%, (12% in 2004). The main union is Sasbo, which represents a third of all employees.

Policy and measurement

Santam's employment equity policy is to pursue its business purpose and goals, which it regards as being in line with the intentions underpinning the Employment Equity Act and the FSC. The FSC offers an appropriate pathway for guiding the development of employment equity within Santam, and the company measures its progress in this regard monthly, quarterly, and annually, using these figures to inform recruitment and development policy.

Interventions since 2001

Santam is proactive in its response to each of the employment equity indicators it measures. In response to the results achieved since measurement began in 2000, Santam has implemented a number of interventions and initiatives to improve employment equity within the company. Some of these are listed below:

- The bursary policy was reviewed and seven bursaries awarded to EE candidates
- Business unit EE forums were formed and members were appointed and trained
- Recruitment and selection, promotion guidelines, succession management and other HR policies were aligned to support employment equity
- Specific EE targets for business units were drawn up and commitment obtained from SBU heads to achieve these targets
- An EE management committee meets fortnightly to monitor progress and drive the implementation of employment equity
- SBUs report to Exco on progress three times a year

Santam's employment equity strategy

Santam's EE strategy focuses on three major areas in order to achieve the required targets over time:

- **Culture** — to create a culture in which employment equity and diversity in general are nurtured, respected and valued as integral parts of Santam's sustainable profit and growth strategy,
- **Opportunities** — to concentrate on using opportunities to increase diversity and the representation of designated groups, particularly black people
- **Retention** — to enhance the retention of people from designated groups.

Status

The accompanying tables set out Santam's progress towards employment equity targets against FSC standards as at December 2005.

Progress towards employment equity targets at December 2005

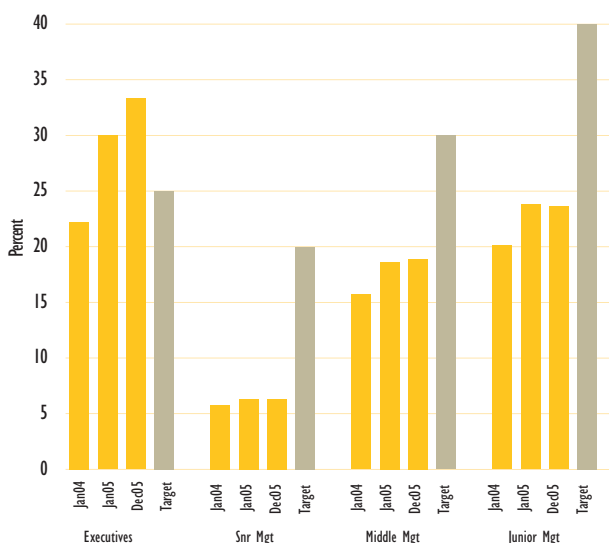
Occupational levels	Target Group	Progress in 2004 %	Progress in 2005 %	FSC target 2008 Min %
Executive management*	Black women	0	0	4
	Black people	25	33	25
Senior management*	Black women	0	1	4
	Black people	5	6	20 - 25
Middle management*	Black women	3	3	10
	Black people	19	19	30
Junior management*	Black women	9	8	15
	Black people	21	24	40 - 50
Total employees	Total Women		59	
	Black people	36	38	

* Definition is in terms of the FSC, not Santam's internal definition

Employee movement for 2005

		Total	Black %	White %
Appointments	Internal	217	46	54
	External	212	65	35
Promotions		284	49	51
Exits		267	43	57

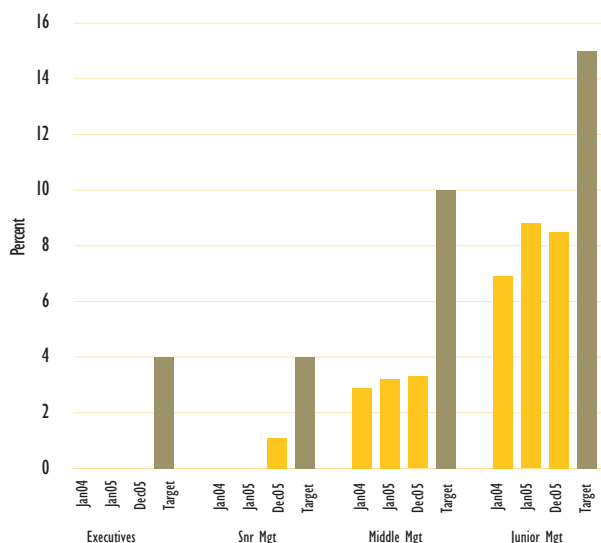
Black people



These tables illustrate that although each of the initiatives listed above contributed to establishing a diverse culture relative to the 1998 baseline, the company is not currently on course to achieve the 2008 FSC targets. This situation was already evident from Santam's 2003 results, prompting an intensified effort to promote employment equity actively.

Of particular concern to Santam is the proportion of exits by black employees relative to the company's total staff complement. This is a challenge that not only Santam but also the rest of the financial services sector faces. Exit interviews and other diagnostic tools have been applied, and the results of these have informed a number of initiatives described below and in more detail in the sections: organisation development and skills development.

Black woman



New initiatives — 2004 and 2005

A number of further initiatives were launched in 2004 and 2005:

- Other than Exco positions, which are sanctioned by the Board, Exco sanctions all appointments that are not EE
- Accelerated development programmes for assessors, broker consultants and junior managers were implemented
- EE employees were targeted for the leadership advancement programme (LAP) and the executive development programme (EDP) at UCT
- A diversity diagnosis was performed on Santam
- A 70% black appointment ratio was agreed upon
- All Exco members have attended a diversity management workshop
- Santam subscribed to the Financial Sector Charter (FSC)
- All managers and employees were trained in diversity ability and awareness.

Stakeholder engagement to facilitate EE

- The EE committee has conducted a focus group survey with black employees to get their views on progress made, the culture of the company and suggestions for improvement,
- An employee climate survey was conducted throughout the company,
- Exit interviews were conducted by Exco members with some black ex-employees to determine the real reasons for their decision to resign.

Recruitment and selection

While Santam aims to achieve a 70% black appointment ratio, the company has struggled to improve on its current 50% ratio. Therefore, in 2004, the company instituted recruitment and selection panels that conduct the final interviews once the recruitment division has drawn up a shortlist of five candidates for a position. A line manager, an HR staff member, and an EE representative make up each panel, balancing out any possible prejudices against a particular candidate.

Organisational development

Leadership creates an enabling culture

Outstanding management and leadership are the two primary ingredients that will bring the six thrusts under Santam's 2010 Strategy together so that we may achieve long-term success. While management entails the implementation of strategy, leadership creates the enabling culture, and Santam recognises this factor as a primary focus of its organisational development.

Santam measures its culture (the way we do things) every year, and the company morale (perception of how we do things) of every business unit/division quarterly. These measurements help line managers understand what to concentrate on in motivating staff members from one day to the next. Ultimately, Santam's mission is to become one of the top ten companies to work for, thus enabling it to attract and retain the best talent and unlock value for its shareholders.

Industrial relations

Santam maintains a constructive industrial relations climate. Cases reported to the CCMA compared were reduced by 20% to 13 cases compared to 16 cases in 2003. The number of disciplinary actions also dropped from 38 to 32.

In the 2005 Best Company to Work for Survey, Santam was rated 33rd out of 121 companies, which is an improvement on our ranking in 2002 when we were rated 49th out of 85 companies.

Leadership and personal development

In 2005, Santam focused specifically on preparing future leaders. The company ran entry-level leadership development programmes in the two call centres as well as in Insurance Services. In total, approximately 60 candidates completed these programmes. A middle-management programme was conducted in one of the Broker Distribution Unit regions. Within the Insurance Services Business Unit, discussions about issues concerning human capital take place regularly.

Purpose of Santam's Performance Management

- Set and contract specific objectives in order to implement the strategy
- Measure performance achievement and identify improvement areas
- Develop the individual
- Identify potential
- Recognise and reward sound performance
- Improve productivity of team and department
- Help in creating a performance culture

Santam is also committed to personal development and has created a customised programme for service consultants in a specific area within the Broker Distribution Unit to help candidates gain a greater understanding of their world of work as an individual, in relation to the team and the organisation and further afield.

An enabling culture promotes:

Commercial orientation

Customer orientation

Concern for employees

Management of change

Performance and reward

Santam has a rigorous Performance Management system to execute its strategy, change the culture, and improve the company's results. This requires that all employees achieve the goals and objectives contractually agreed upon with them.

Three phases of performance management

The annual cycle consists of three phases that aim at improving the individual's performance:

- Contracting — In January/February/March each year, new targets (RAs and RIs) for the new financial year are contracted with each employee.
- Review — In July every year, each individual's performance / progress to date is evaluated against the contracted targets. Managers monitor and evaluate each employee's performance, provide feedback and offer assistance where necessary.
- Final Appraisal — The final Merit Appraisal takes place during November and December each year and determines the employee's salary increase, performance bonus, and career path.



Winning the three SAFSIA awards provides sure recognition of our hard work and passion in serving our clients. Well done, you are a winning team!



Pankaj Ranchod

Organisational Development (OD) consultants are assisting Santam in aligning its Result Areas (RAs) with the company's 2010 Strategy. This process will continue into 2006 when the OD consultants will conduct briefing sessions and provide support to business units/divisions regarding the process of contracting these new performance targets.

OD is also involved in setting guidelines for promotions for all job categories. This process will be completed in 2005 and will be used in future for promotions and career discussions.

Awards

Top Listed Companies — Santam named the highest ranked financial services provider in Financial Mail's Top Listed Companies Review — 2005, and 14th overall.

SAFSIA Awards — Santam made a clean sweep of the South African Financial Services Intermediaries Association (SAFSIA) awards by winning Personal Insurer of the Year, Commercial Insurer of the Year and Corporate Insurer of the Year awards.

Brokers' best — A study by PricewaterhouseCoopers (based on a survey of broking firms) ranked Santam as the best insurance company in South Africa in both the commercial and personal lines categories. In addition, a Markinor survey named Santam the second favourite short-term insurance brand in South Africa.

Employee communication

Many avenues of communication with employees have already been explored in this report, from formal employment structures to enabling structures such as the Employment Equity Forums and strategy sessions. However, a particularly popular and informative communication channel is the monthly staff newsletter, Santamos. It gained recognition for its excellence by reaching the finals in the SA Publication Forum's competition for corporate publications in the communication excellence and writing excellence areas and also won the Best Design Award. Santamos informs employees of new initiatives, offers feedback and opinions from individual staff members and recognises individuals and teams for their contributions.

Employee recognition

Annual Golden Umbrella Awards are presented to staff who consistently conduct themselves in accordance with Santam's brand values. Other awards bestowed include 'Star of the Month', 'Long Service Recognition' and 'Unsung Heroes'.

Skills development

Ignite human capital

Santam's training and development strategy is aligned to the company's strategy and facilitates leadership, management, technical, operational and behavioural skills development for employees at all levels of the company.

The focus of the leadership interventions is on the executive team, senior and middle management, supervisors and specialists.

The specific interventions and programmes targeted through skills development are determined by development discussions at an individual level following the performance appraisal process, training needs analysis per Strategic Business Unit (SBU) and overall strategic goals, such as employment equity and organisational diversity.

Development policies and procedures are available on the company's intranet, and every employee has access to development plans, their own training records and available programmes and courses through a unique and confidential 'My Development' portal, tailored to the individual's development situation.

A growing investment

In 2005, Santam invested 5.6% (2004: 4.6%) of its payroll on people development, of which 2.2% (2004: 1.6%) was spent on EE candidates. Santam's investment in training as a proportion of payroll has more than doubled over the past four years. On average, every employee receives 4.5 days of training per year.

In Terms of the Financial Sector Charter, companies are required to spend 1.5% of payroll on skills development for previously disadvantaged individuals. Santam exceeds this target by 50%.

Development priorities identified

Santam has identified the following development priorities:

- Leadership skills
- Computer skills
- Diversity ability skills.
- Technical skills

Programmes adopted by Santam to address development priorities

- Formal business school leadership programmes (ELDP, MDP, LAP, BMP)
- Management modules
- Supervisory programmes
- Operational/technical programmes
- Computer courses
- On-line multimedia courses
- Diversity ability programme

Accelerated development

Santam recognises that achieving a representative employee base with the right skills set will take more than simply increasing the proportion of black people appointed. Many of the skills required for leaders, broker consultants and insurance assessors are under-represented in the target communities.

During 2005, more than 50 employees, including service consultants and people in other positions with potential to progress along the required career path, were put on an accelerated development programme. This initiative was co-ordinated by OD consultants in each business unit by running appropriate training courses, on-the-job apprenticeships with experienced mentors and, ultimately, placement in the required positions.

We will ignite human capital by attracting, developing, and retaining the right people, with the right skills and mindset, in the right places.

Santam
Strategic Thrust No.6:
Ignite Human Capital

Diversity

Diversity training began in 2005 with 84 sessions attended by 1 512 employees in an effort to convince personnel to be more appreciative of diversity. In addition, 30 sessions were held for some 350 managers to develop their skills in managing a diverse workforce. The programme will continue until all staff have had the opportunity to attend.

Learnerships

Twenty black matriculants completed a year-long learnership that started in June 2004. Nineteen qualified in June 2005 and of these, 80% obtained employment with Santam. A new group of 46 matriculants is currently completing the learnership programme. These candidates, together with an anticipated intake in June 2006 of more than double this number, will ensure that Santam complies with the FSC requirement that 4.5% of the total workforce should hold learnership positions over the three-year measurement period.

Engaging with INSETA

The INSETA for the short-term insurance industry had no historical training board or tertiary educational standards on which to build its industry

training service for previously disadvantaged entrants to the industry. Recognising this, Santam has played a strong leadership role in shaping the standards and qualifications now applied in the industry. The company serves on the INSETA council and working groups, as well as on a number of its subcommittees. Santam is recognised industry-wide for the quality of product training it offers, and has received ongoing commendations from INSETA for its skills development plan.

Employee Assistance programme

Santam's wellness programme supports all employees and their direct families with a free counselling and advice service. This service caters for a variety of personal, financial, work-related, and emotional difficulties

Health and safety

Santam's premises consist of the head office in Bellville with 400 people, six large centres providing administrative support and 20 - 30 branch offices. Santam complies with and is guided by the Occupational Health and Safety Act in all its health and safety management activities.

Since mid-2005, the company has taken a fresh approach to health and safety management by consulting Gensec Properties. Gensec undertook a sample audit at Head Office and 10 branches in the Gauteng area, before putting together a training programme and compliance kit for branch managers and key personnel members.

Under this new approach, each branch will have an occupational health and safety representative who will report monthly to Head Office on accidents and other material incidents. A periodic auditing process will start with the first full audit being held in the first quarter of 2006.

HIV/AIDS — prevention and care

Despite a relatively low risk profile in its workplace, Santam is keenly aware of the importance of preventing the spread of HIV/AIDS and of caring for those with the virus. Accordingly, the issue has the full support of Santam's board and has been incorporated into the Company Charter.

Santam's HIV/AIDS Prevention and Care programme aims to:

- Prevent as many new HIV/AIDS infections as possible
- Extend the life expectancy of those who are HIV-positive
- Portray Santam as a good corporate citizen.

Beginning in 2004, PeopleManagement were engaged to conduct a programme of co-ordinated interventions, beginning with the well-regarded 'Know Your Status' campaign at Santam. In the first round, 80% of Santam's employees completed the training component of the programme. The campaign proved such a success that Santam sponsored after-hours sessions for staff members' families and was able to reach most of those who had missed out on the first round with a repeat campaign in November 2005.

The accompanying table describes the number and percentage of employees who took part.

Know Your Status results

Total number of employees Santam Limited only	2 581
Awareness	2 073
Pre-test counselled	1 963
Tested	1 827
Percentage of Awareness attendees tested	88%
Percentage of Pre-test counselled tested	94%
Percentage of Total Employees tested	71%

Prevalence rates and follow-up care

The results of the tests showed Santam's prevalence rate to be well below industry norms. People who tested HIV-positive were given the option of having a confirmatory test done. They were also informed about the value of keeping their immune system strong and the advantages of enrolling in Discovery's Disease management programme, sponsored by Santam.

World Aids Day

On 1 December, 2005, Santam followed up with the 'Gift of Life' Personal Protection Programme (P3) product for every employee. This included a pack with an HIV/AIDS ribbon, a care centre number giving free access to advice, counselling and care, as well as a leaflet containing pertinent information.



Peer educators will be trained as 'life skills champions' in 2006 to keep the Aids message fresh and relevant among Santammers as well as reaching out to the community at large.



Eltie Links

Follow-through

Santam is committed to managing the HIV/AIDS issue continuously for the sake of both its employees and their families. Follow-up training programmes will be held for new staff, and all available communication channels, including the company intranet as well as newsletters, are being used to maintain awareness, knowledge, and understanding amongst all employees.

Biophysical environment

Although until recently Santam did not have in place specific policy regarding its direct impact on the biophysical environment, the company has been proactive in its approach to minimising its direct impact, both with respect to consumption and wastage.

Electricity consumption is monitored and minimised by phased usage of lights and air-conditioning systems while paper, the most significant form of material waste created by Santam, is collected for recycling.

The Santam Head Office in Bellville covers an area 2.8 ha. The grounds used to be irrigated, but more recently the gardens were replanted with indigenous 'water-wise' species, thus allowing the irrigation system to be shut down.

Looking to the longer term, Santam is monitoring workplace trends in the knowledge economy, and is aware that increased work mobility through the development of electronic networks may have an effect on the company's physical workspaces and therefore also its policy towards environmental preservation.

See Santam's environmental policy on page 43.



“It’s dangerous
to follow the pack.
Herds get culled.”

John Hunt, Hunt Lescaris

MARKETPLACE

Unusual challenges

The short-term insurance industry holds unusual challenges for a company looking to develop strong relationships in the marketplace. For most clients, insurance starts out as a grudge purchase, often only after a painful loss. Premiums have to be paid continuously even when no loss is suffered; creating the prevailing perception that short-term insurance does not offer much value. In addition, clients often anticipate being at least partially thwarted when an event forces them to lodge a claim. The insurer, on the other hand, often has to deal with the worst side of human nature when people undervalue, over-claim or commit blatant fraud.



We will build our business in such a way that the client is at the centre of our thinking, strategy, structure, and operations.



Santam
Strategic Thrust No.1:
Client Focus

Santam's relationship with its clients is further affected, although greatly enriched, by a distribution network that centres on brokers and other intermediaries. Santam relies on these important business partners to represent its products and procedures fairly and truthfully to its end client.

Broker awareness

At 73%, the overwhelming majority of Santam's brokers surveyed by the company in September 2005 were concerned that 'issues in the life industry', such as consumerism, transparency and cost, would spill over into the short-term insurance industry.

In this context product stewardship is a crucial issue, because a small shift in client perceptions can affect overall marketplace trust and consequently long-term business sustainability.

Client Focus is Santam's Thrust No.1

Strategic Thrust No.1 under Santam's 2010 Strategy — Client Focus — makes it clear how seriously the company views its relationship with its clients. This section on the marketplace deals with product stewardship and with how the company interacts with its clients and its broker community. The report then looks at transformation in the context of developing new opportunities in the previously uninsured market sector.

The regulatory environment

In the first few years of the new millennium, it became increasingly apparent that the intermediary sector and the financial services market were in need of regulation. After a process of consultation with all industry stakeholders, the Financial Advisory and Intermediary Services Act was promulgated in 2004. The Act attempts to regulate the business of rendering financial services to clients and thus provide clients with the necessary security and surety in the financial market.

Product stewardship

Sensing and responding to needs

Santam recognises that, given the unique relationship between the short-term insurer and the marketplace, it is critical that the company play a proactive role in sensing and responding to its clients' needs at every possible opportunity.

Points of entry

Santam provides multiple points of entry for its clients and brokers, whether the preferred contact method is in person, by telephone or through the Internet.

- **Two contact centres** — FAIS-accredited consultants provide comprehensive sales service, amend policies, and handle general enquiries relating to Santam's personal product lines
- **Six commercial Client Contact Centres** — All administration of commercial business is done at centres situated in Johannesburg, Pretoria, Bloemfontein, Durban, Cape Town and Port Elizabeth
- **Nine drive-in centres** — Santam's centrally-situated drive-in centres offer a one-stop service for damaged vehicles. These are located in Bellville, Claremont, Goodwood, Somerset West, West Rand, East Rand, Pretoria Gezina, Pretoria Menlyn, Port Elizabeth and Durban
- **Santam offices countrywide** — Santam is divided into five regions, each with a regional manager. These regions are divided into areas, each presided over by an area manager
- **MultiSOS** — This service is a 24/7 emergency and claims service that is a standard and free feature on all personal policies
- **Claim tracking online** — Claims can be registered and tracked through Santam's website at www.santam.co.za
- **Underwriting managers** — Santam's Niche Business unit brings together a group of specialist underwriting managers who have specialised knowledge and expertise in specific fields.



We will develop our distribution channels to offer our business partners and clients the widest range of distribution choices in the most efficient and optimised way.

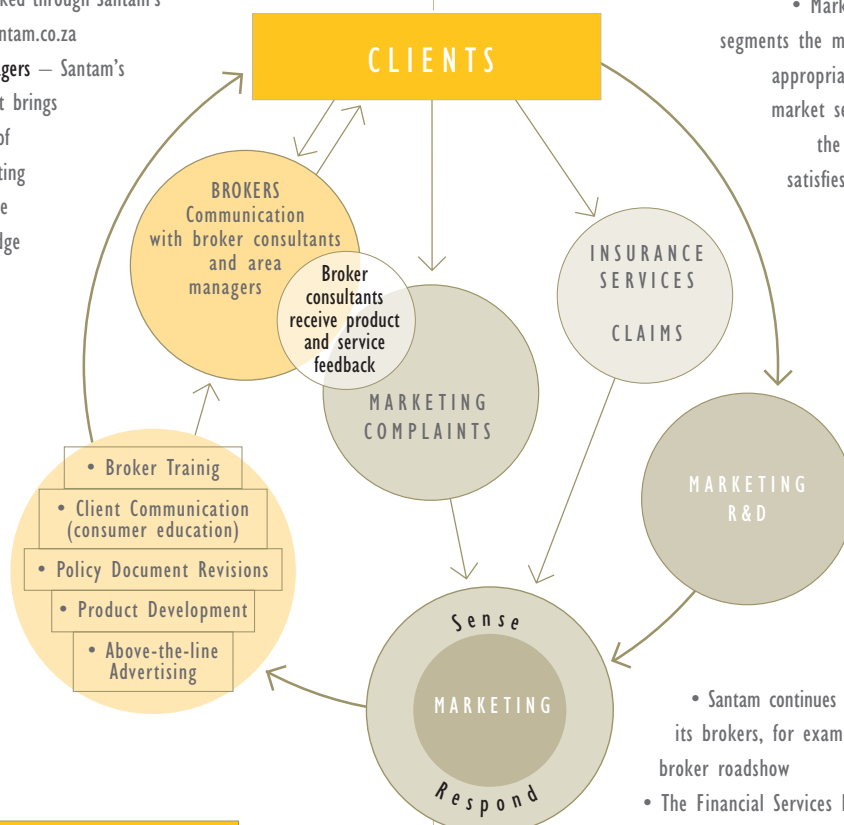


Santam
Strategic Thrust No.3:
Distribution Channel Development

Policy

To support the company's intense focus on improving its client relationships, Santam has made a conscious effort to emphasise fairness and equity in its business dealings. This focus has come to the fore in a number of avenues:

- Insurance Services have developed a client services code, or pledge, that guides all client interactions
- Claims decisions are made according to the spirit of policy agreements, as opposed to the narrow definition of the 'small print'
- There is a dedicated client communications function to improve consumer awareness and education
 - Market Research surveys and segments the market in order to create appropriate products for different market segments, and to monitor the extent to which Santam satisfies client needs and builds loyalty to the brand



Insurance Services Client Service Code

We pledge to:

- Be courteous and professional and to treat people with respect at all times
- Keep our clients informed at all times
- Respond to an enquiry timeously
- To have a manager or supervisor available 24 hours a day
- Exceed the expectations of our clients.

The spirit, not the letter

Santam is working closely with the Ombudsman to ensure fairness in the interpretation of its contracts with policyholders.

Compliance with the FAIS Act

In order to ensure compliance with the requirements of the FAIS Act, various interventions, including information manuals and courses were implemented to assist Santam representatives, business partners and independent brokers in meeting the necessary standard required by the FAIS Act. These included recognition of prior learning (RPL), accreditation of Santam courses and a full assessment service.

New legislation

Santam is committed to complying with all existing legislation pertaining to the financial services industry, and in particular, the short-term insurance industry, and maintains a close relationship with the SAIA and various government departments with regard to pending legislation. Santam's involvement includes providing necessary input when Bills are submitted for public comment such as the National Credit Bill and the pending Privacy and Data Protection Bill.

Client satisfaction

Since the last quarter of 2003, Santam has undertaken satisfaction surveys of its clients at the point where they submit a claim. The following channels are measured twice a year:

- Claims Administration Centres — including registration of claims, assessment, and service providers
- The MultiSOS Centre — reflecting the specialist claims services, which include the legal and specialist claims environment.

In 2006, Santam plans to extend its customer satisfaction survey to the vehicle recovery branch and the motor glass repairers.

The Client Satisfaction Index (CSI) provides the company with three bands of feedback: delight, tolerance, and churn — the last indicating the potential loss of the customer. Four competencies are assessed in respect to each of these channels:

- Professionalism
- Communication and feedback
- Service delivery
- Customer relationships

Results

Since measurement began in 2003, Santam's overall score has shown continuous improvement. The industry Customer Satisfaction Index mean for 2005 was 75%, with Santam scoring 81%, indicating that the company is leading the majority of providers in this industry.

While Santam rated highly for professionalism, service delivery, and customer relationships, a slightly lower rating for communication and feedback indicates that this is an area that needs improvement. In this regard, Santam has already begun to provide clients with more frequent updates on the claims process, as well as maintaining closer contact during the claims process. Santam's internal service providers rated more highly than its business partners did, which indicates the need for further communication and training initiatives.



Client protection

The client's right to complain

If a client is unhappy with Santam's service, or in the event of a claim being repudiated, the client has the right to register a complaint through any number of avenues.

Recognising the importance of this right, Santam has a division dedicated to recording and resolving client complaints. The Complaints Division falls under the Marketing Business Unit, enabling Santam to include this valuable feedback in its product development, client and broker training programmes, and above- and below-the-line communication channels.

The MultiSOS team

Independent of Santam is the short-term insurance Ombudsman, an industry position set up under Section 19 of the Financial Services Ombud Schemes Act, 2004 (Act no 37 of 2004).

Recording complaints

The main sources of complaints recorded are:

- The Ombudsman for the short-term insurance industry, which accounts for about 65% of all complaints
- Direct from clients via Santam's complaints line
- The FAIS Ombudsman, focusing more specifically on poor advice from intermediaries.

Role of the short-term insurance ombudsman

To resolve disputes between members and insured consumers in an independent, impartial, cost-effective, efficient, informal and fair way. Santam's head of marketing, Steve Zietsman, sits on the board of the Ombudsman.

The contact numbers for each of these three avenues of complaint are clearly printed on every client's policy document.

Complaints not adequately picked up by Santam are those that are handled and resolved by intermediaries, or those that are escalated to the relevant branch managers. Santam is in the process of widening the net and improving systems for capturing all claims. A web-based system is now being piloted and is ultimately intended for use by all branches.

Results

Twice a year, Santam's internal ombudsman collates complaints and reports on these to Exco. The complaints for 2005 increased in number from 1 224 complaints in 2004 to 1 809 in 2005. The main reasons for the increase are that Santam and the industry have increased awareness among clients of their right to complain and of the channels available to them to do so. There has also been a sharp increase in the volume of business underwritten linked with the softening of the cycle and resulting increase in claims.

Santam has worked closely with the ombudsman and refined its philosophy of understanding clients and its system for resolving complaints. The company's target of having at most 180 matters open at any one

Escalation and resolution

Santam's complaints department fulfils the role of 'internal ombudsman' by receiving complaints from policyholders and from the Ombudsman's office. The role of the Ombudsman, both external and internal, is to facilitate the resolution of the complaint by adopting an impartial stance. In 2005, there were no complaints older than six months and only eight complaints older than four months. This is a substantial improvement on 2004, when the number of complaints on the six-month list was 35, with 70 on the four-month list.

time with the Ombudsman was achieved in the latter part of 2005, and is being maintained.

The most frequent complaints, comprising 57% of all complaints received, are the following:

- Delays in processing
- Portion paid as a result of the principle of average
- No cover
- Vesa-approved immobiliser and gear-lever lock
- Settlement amount not reflecting sentimental or other value over and exceeding market value
- Feedback reactive rather than proactive
- Unsatisfactory repairs
- Broker service
- Excess recovery takes too long
- Wear and tear and gradual deterioration.

Loyalty Club to reduce client churn

Santam, together with Sanlam, will soon launch a loyalty club for clients in order to improve loyalty and reduce client churn.

Long-term service improvement

The information Santam gleaned from complaints is critical to its future business as it potentially improves:

- Broker development
- Client communication (consumer education)
- Policy document revisions
- Product development
- Above-the-line advertising.

Targets for 2006

Santam will continue to improve its systems for collecting complaints from all avenues, will maintain or improve the time taken to resolve complaints, and reduce the number of complaints that are a result of miscommunication or inadequate client education.

Client communication

In 2005, Santam created a new position to manage client communication, further reflecting the company's commitment to improving its brand identity

and reputation with its clients. The primary goal is to educate and inform policyholders in order to encourage responsible risk management among clients and to provide a quality control function for all communication between Santam and its clients. In this way, not only clients but also brokers benefit because misunderstandings are reduced and trust increased. Santam also benefits from fewer complaints and a more efficient and client-appropriate service.

New communication initiatives

As from 2005, Santam started sending a welcome pack to all new clients, including:

- A folder containing insurance-related documents
- A personalised letter of welcome
- An insurance guide, giving a brief history of short-term insurance, the principles of insurance, describing key issues such as the principle of average, a glossary of terms, and examples illustrating typical applications,
- A document explaining the claims process, and including contact numbers.

SMS Service

Santam notifies clients by SMS when a claim is registered, an assessor is appointed, and a claim is paid. This service is available to personal lines policyholders in South Africa. An SMS is also sent to all new clients to remind them of the amount and debit order date of their first month's premium.

A further initiative begun in June 2005 is the annual 'Client IQ' letter, which is a learning tool informing clients of the finer points of the insurance industry in an interactive question-and-answer format.

New initiatives set for 2006 include an electronic client newsletter and the modernisation of all traditional client letters to improve their clarity and user-friendliness.

Consumer education

Consumer education is done via the industry body SAIA. It allocates the pooled funding towards specific country-wide consumer education products. The FSC requires a commitment that 0.2% of post-tax profit will be spent on approved Consumer Education projects. The industry body SAIA has invited its members to pool these funds in order to finance more meaningful projects. Santam has contributed 0.2% of South African post tax profits, amounting to R3.4 million to this pool for 2005, which represents more than 40% of the Consumer Education funds contributed by the participating companies.

The broker relationship

Importance of the broker as a business partner

Santam's brokers are of the utmost importance in maintaining and growing the company's market share in the short-term insurance industry. Brokers write 97% of the total gross premium of Santam.

Santam is committed to supporting its brokers, improving its service, and ensuring a stable business environment into the future. Within the broker services division, Santam has a network of 65 client service centres with 758 staff members supporting some 7 000 broker accounts. In return, Santam is the preferred insurer for 80% of its brokers.

Measurement of broker satisfaction

During September 2005, Santam held its annual broker roadshow, incorporating a survey of brokers' perceptions of Santam and its service. This survey and roadshow will be repeated yearly in order to track broker satisfaction over time and indicate areas requiring improvement.

Structural changes

To make it easier and more comfortable for brokers to do business with Santam, the company made a number of structural changes recently:

- Combining the call-centres, portfolio management and broker services into a one-stop service division, thus helping to break down silos
- All administration services were combined under Insurance Services to make maximum use of synergies to deliver a seamless service
- Specialist and Alternative Distribution offers brokers and clients integrated product and service solutions across the whole spectrum of corporate business, risk finance, and niche business.

Broker communication

Santam communicates with its brokers through a quarterly magazine called Focus, which features industry and Santam news. In addition, the company disseminates a monthly electronic newsletter called e-Focus, as well as a monthly letter from Edward Gibbens, the executive head of Broker Distribution. At regional level, area managers hold ad hoc broker forums to discuss pertinent issues affecting the distribution channel.

The annual broker roadshow, held annually in September, consists of a survey covering 100 brokers, followed by a feedback and discussion forum held in each of the country's six regions.

Broker development

Santam's objective is to develop brokers' knowledge of the company's products, thus creating goodwill in the broker community and increasing the likelihood that brokers will include Santam products in their portfolios. A second important objective is to improve underwriting skills, as this leads to an improved claims ratio for the company.

In 2005, Santam ran 9 500 training interventions for brokers, of which 1 000 were for the purpose of gaining FAIS accreditation. Of those who attended these FAIS courses, 500 handed in portfolios and 450 achieved their competence rating.

Recognising the importance of developing the black broker segment in order to expand Santam's target market, Santam has begun the process of understanding its broker profile. Until the year under review, this was almost impossible to achieve, as record-keeping systems did not produce information on race or gender. However, Santam's new Destiny system will allow the company to report in 2006 not only total figures concerning broker training and development, but also its status with regard to black broker development.

Environmental impact

Policy

As the leading short-term insurer in South Africa, Santam acknowledges its corporate responsibilities to the environment through its role as an insurer, investor, employer, and consumer.

Santam believes that conservation and improvement of the environment is a critical issue nationally, regionally and globally. The company believes that by pursuing environmental best practice it can enhance its commercial viability while simultaneously contributing to the environmental and sustainability agenda positively.

Direct impacts

Santam accepts that direct impacts arise through the company's:

- Management of properties
- Consumption of energy, water, and paper
- Management of waste
- Use of transport.

Indirect impacts

Santam also accepts that its business has indirect impacts through the manner in which it:

- Designs and delivers its products
- Directs and manages its investments
- Procures goods and services.

Commitment

Because of these potential indirect and direct impacts, Santam is committed to finding and implementing appropriate ways to mitigate and manage them. Where possible this will be driven by including measurable, monitored environmental management systems in the company's business plans.

Santam will comply with all relevant environmental laws and regulations and will continually strive to implement environmental best practice.

Santam will encourage its business partners and members of the wider community to manage and reduce their environmental impacts in a responsible manner.

Santam accepts that its environmental policy will require refinements and commits to reviewing it periodically as well as reporting annually on the progress of its implementation.

“The greatest step forward
in human evolution was made
when society began to help the
weak and the poor,
instead of oppressing and
despising them.”

Maria Montessori

SOCIETY AND COMMUNITY

Long-term commitment

Santam recognises that concentrating purely on the partners and clients currently dealing with the company may produce short-term financial gains, but at the expense of long-term business sustainability.

Beyond the inner circle of Santam's business partners lies the wider South African society, largely characterised by previously disadvantaged black communities that still encounter stiff barriers to entry into the formal economy, leading to an ever-widening wealth gap.

Santam's social strategy

Santam's long-term strategy is to use its expertise, market presence and industry influence as South Africa's leading short-term insurer to effect a meaningful improvement in personal security for disadvantaged citizens of South Africa. In the process the company intends to position itself as not only as the leading short-term insurer in the country's formal market, but pursue the long-term strategy of creating a strong base on which to expand its products and services into the informal marketplace.



We will develop a future-relevant market and profitably grow our business in the markets that we choose to compete in.

Santam
Strategic Thrust No.2:
Market Expansion



Non-aligned giving

While Santam has a strong focus on aligning its social investment strategy with its business goals, it also believes strongly in non-aligned giving where the company encourages and supports social issues that are of critical importance to the nation's welfare in their own right.

There are three avenues Santam follows in order to achieve both meaningful transformation in a personal security for the previously uninsured as well as new business opportunities for the company:

- New product development as part of Santam's own business expansion into new markets
- Corporate Social Investment
- Contribution towards industry initiatives, such as consumer education through SAIA.

Affordable access to financial services

An industry-wide approach

According to the South African Insurance Association only 0.2% of people within the poorest half of SA's economically active population (LSMs 1-5) have insurance. In October 2005, SAIA outlined details to parliament of its Mzansi plan to provide affordable insurance through a generic industry-wide initiative to more than 150 000 households representing some 6% of SA's poorest by 2008, thus allowing insurers, such as Santam, to meet their FSC commitments. The Mzansi product will cover three areas: household goods, the value of a house, and a cell phone. Santam has provided significant input and support in developing this product.

Access to financial services

The two products that Santam has been marketing to the lower LSM market are funeral and legal access cover.

Santam's own product development

In addition to supporting industry efforts through SAIA, Santam has also been pursuing its own entry into the lower LSM market. The first step, begun in 2005 through Research and Planning, was to understand the market better. Secondary research was conducted and is already providing divisions like Alternative Distribution and Product Development with guidelines to developing suitable products and distribution channels for this segment of the market.

Santam's initial product, to be launched in the first quarter of 2006, will target the house contents and building components for homes built of standard construction materials and methods. During this phase, Santam will pilot innovative product design and distribution methods consistent with the informal market. This will serve as good preparation for the next phase, scheduled for the latter half of 2006, when Santam will begin approaching the non-standard construction market.

Corporate social investment (CSI)

Strategy

Santam's revised CSI strategy is focused mainly on development, but also serves a broad business agenda that:

- Supports transformation, including developmental priorities within the supply chain and the marketplace
- Meets employee aspirations to contribute to society
- Instills values of passion within the workplace
- Satisfies important stakeholders such as government and industry bodies
- Underpins the brand by demonstrating commitment to less privileged people who cannot afford insurance
- Doing the above positions the company as a responsible corporate citizen.

Focus areas

The focus areas for flagship projects are:

- Education
- Job creation (skills and SME development)
- Arts and culture
- Crime prevention
- Disaster relief / recovery.

Expenditure

Currently, Santam is under spending on CSI initiatives in comparison to the formula of 0.5 percent of post-tax profit proposed by the FSC. Santam currently spends about R3.3 million on CSI (or R4.8 million, including Child Art). This equates to 0.18 percent (or 0.27 percent including Child Art).

New CSI initiatives for 2006, including the Operation Firewatch project, will add to the CSI budget and thus also contribute to achieving FSC compliance.

Flagship projects

Santam Child Art

Santam's Child Art Project was created 42 years ago to promote a love of art and help children express thoughts and ideas creatively. In 2000, Santam recognised the need to leverage the power of art for transformation and founded the Child Art Trust. This trust receives proceeds from project activities, such as the sale of calendars and the auctioning of child art, and uses these funds to provide free art classes to children in disadvantaged communities.

Child Art facts and figures

Every year 5 000 entries are received during the six months to June. Of these, 13 are chosen for Santam's annual calendar, while a further 200 receive prize money for their schools. In 2005, the auctions held in Johannesburg and Cape Town collected R400 000 towards the Child Art Trust.

In 2005, the number of art classes increased to 36 from 25 in 2004. Santam aims to increase this number to 50 in 2006.

Considering that Art is being phased out of the new school curriculum, Santam wants to make a serious contribution to discovering new talent, especially among disadvantaged communities. Santam is developing strong relationships with the Belville Art Gallery and the National Educational Department's Arts and Culture division. The annual travelling exhibition of Child Art at major galleries will now be used to attract and identify new talent that can be nurtured through Santam sponsorship.

Non-flagship CSI programmes

- **Khayelitsha Auto Training Centre** — A partnership programme with STI (Service with Integrity) offering accredited courses to panel beaters, spray painters, and motor mechanics in disadvantaged communities. Graduates placed with STI members.
- **Santam Financial Management Programme for early Childhood Development Practitioners** — A financial literacy course for black women, originally offered to child care workers, but to be extended in 2006.
- **Adopt-A-Shop** — A mentorship programme to help emerging entrepreneurs gain panel beating and business skills as apprentices to formal panel beaters. The programme is on hold while Santam seeks industry support.
- **MaAfrika Tukun** — Beginning in 2005, Santam committed R200 000 a year for five years to this project that provides support to home-based caregivers that assist HIV/Aids patients and orphans.

Young Entrepreneurs Performing

This new flagship education project is in line with Santam's aim to offer consumer education and financial literacy to young people emerging from disadvantaged educational backgrounds. Santam-sponsored trainers will visit schools

nationwide, offering pupils in Grades 10 to 12 education in entrepreneurship as a component of the Economic Management Sciences curriculum.

A practical component of the project will be an entrepreneurship competition that will produce five finalist schools from each province. These will then be given start-up funding to implement their business plans for the national competition.

Santam is committing R600 000 to this project in 2005, and aims to have trainers trained, committed employee involvement and a strong endorsement from senior education officials.

Employee involvement

Santam LIFE

Santam lives its brand values of being always flexible, notably professional, totally passionate, with sustained stability, through Santam LIFE, an ongoing campaign concerning the company's internal culture. In 2005, Santam ran its community involvement programme during Santam LIFE week to demonstrate the company's internal brand values outside the working environment. A challenge was issued to departments and teams across the organisation to roll up their sleeves and, without spending money, volunteer their expertise and labour for the good of the community.

Social Involvement

Various high-level employees at Santam are involved with industry, academia and the community.

Universities:

- Bureau for Economic Research (US)
- Advisory Board of USB (US)
- Stellenbosch University Trust
- SA Institute of International Affairs, Council member (Wits University)
- Bureau for Economic Policy (University of Pretoria)

Industry

- SA Insurance Association, through various subcommittees and task teams
- Insurance Sector Education and Training Authority (INSETA), council member

Community

- Iziko Museums of SA, Chairperson
- Afrikaanse Handelsinstituut, Hoofbestuurslid

The programme engendered considerable enthusiasm amongst the staff. As a result, 44 teams consisting of between five and twenty people each visited economically disadvantaged communities during work hours to deliver food to schools, teach in their areas of expertise, refurbish welfare facilities and crèches, redistribute much needed second-hand items and do various other good deeds.

At the end of the week, each project was written up and submitted to the CSI department, which assessed the projects based on their long-term sustainability, the impact on the community and the level of involvement from participants. The winning team received R10 000 to use towards their project.

Other employee initiatives

Other employee initiatives in 2005, which were not part of Santam LIFE week include:

- Blood donation clinic - Approximately 1 000 people are involved in Cape Town and Johannesburg, many drawn from surrounding businesses, every six weeks.
- Donkey Derby — In partnership with brokers and branches in Johannesburg, the Donkey Derby (hobby-horse racing) occurs annually to raise money for The Association for the Physically Disabled. Approximately R50 000 is raised annually
- Children's home painting — Staff groups from various departments around the country paint children's and old-age homes
- Recovered cars programme — The CSI department buys recovered cars and hands them over to needy organisations
- Christmas Toys — Toys collected by staff go directly to children in hospitals
- Annual golf days — Held in Empangeni and Pretoria, with proceeds going to a school for the physically disabled and other charities
- Obsolete equipment donated — Identified by branches, procured by CSI and handed over to needy charities.

Recipients of recovered vehicles in 2005

Kids' Haven, Homeless Talk, Herberg Kinderhuis (Robertson), Tygerberg Outreach programme (HIV/Aids), DICAG (Umtata), HIV/Aids project in Belhar, Revive Network (HIV/Aids and Poverty Alleviation Project in Strand), Khayelitsha Auto Training Centre, Boys' Town, Winter Blanket Drive in Johannesburg and Cape Town.

Fire prevention

Ukuvuka Operation Firestop

Since the ravaging fires of 2000 in the Cape Peninsula, Santam has contributed R10 million to Ukuvuka Operation Firestop. The objectives of Ukuvuka are to control alien plants, rehabilitate areas damaged by fire, create employment, protect vulnerable communities from fire, promote co-operation and social cohesion between communities, implement integrated fire management plans and manage the 'urban edge'.

Whilst this project has largely achieved its objectives, in 2005 Santam reassessed the role it could play in offering a holistic insurance service, particularly to marginalised communities, and specifically those who have historically not been able to afford household insurance. Such a service should ultimately include:

- Life-skills education in managing fire-risk situations, such as home cooking with paraffin
- The development of lower fire-risk solutions in marginalised communities
- Early warning and early containment systems for the prevention of runaway fires
- Fire-fighting assistance
- Disaster relief and recovery.

Partners in Operation Firewatch

The primary partners in the project are Santam Ltd, the respective local authorities, the Working on Fire programme, and the Ukuvuka Trust.

Operation Firewatch

Operation Firewatch is an initiative that aims to reduce the time lapse between the ignition of uncontrolled fires in informal settlements and the response by fire and emergency services. Fires in informal settlements are often reported 15 to 20 minutes after ignition, by which time the localised fire has turned into a blaze.

The project is being carried out for a eight-month period between November 2005 and June 2006, the so called 'fire season', in the Cape Town metropole and Stellenbosch, incorporating three 24-hour monitored camera systems, local ground fire fighting resources and an aerial fire fighting response. The total financial outlay for Santam is R1 850 800.

REFERENCES TO STANDARDS

Index to components of the Financial Sector Charter

The following table serves as a reference to the section within the sustainability report for components of the Financial Sector Charter.

COMPONENT	SECTION
Ownership and control	The workplace, ownership and control
Procurement and enterprise development	Procurement
Human resource management	Workplace
Access to financial services	Marketplace
Empowerment financing	Workplace
Corporate Social Investment	Society and community, Corporate Social Investment (CSI)



“If you can dream it,
you can do it.”

Raymond Ackerman

REFERENCES TO STANDARDS

Index to components of the GRI

In accordance with the recommendations of the Global Reporting Initiative (GRI), the following table indicates where each reporting element is referred to in this report.

GRI indicator	Topic	Section Heading within the Sustainability Report in italics or comment
GENERAL INDICATORS		
1.1	Company's vision, mission, purpose, and strategy	<i>Purpose and strategy</i>
1.2	Statement from Chief Executive describing key elements of report	CE statement
2.1	Name of organisation	This report
2.2	Major products and/or services, including brands	Annual Report
2.3	Operational structure of organisation	Annual Report
2.4	Description of major divisions, operating companies and joint ventures	Annual Report
2.5	Countries in which the organisations' operations are located	Annual Report
2.6	Nature of ownership; legal form	Annual Report
2.7	Nature of markets served	Annual Report
2.8	Scale of reporting organisation. Specific breakdowns by countries/regions that make up 5% or more of total revenue	Annual Report
2.9	List of stakeholders	<i>The sustainability umbrella, governance and sustainability</i>
2.10	Contact information	
2.11	Reporting period	Annual Report
2.12	Date of most recent previous report	2004
2.13	Boundaries/scope of report	<i>The sustainability umbrella</i>
2.14	Significant changes in size, structure, ownership, or products/services since last report	Annual Report
2.15	Basis for reporting	<i>The sustainability umbrella</i>
2.16	Explanation regarding the restatement of information	NA
2.17	Decisions not to apply GRI principles or protocols	Included in this table
2.18	Criteria/definitions	<i>The sustainability framework</i>
2.19	Significant changes in measurement	NA
2.20/2.21	Policies and internal practices to enhance and provide assurance about the accuracy, completeness, and reliability of the sustainability report	<i>Governance and sustainability</i>
2.22	Additional information and reports on sustainability	NA
3.1	Governance structures of the organisation	<i>Governance and sustainability, see also the Corporate Governance report within this Annual Report</i>
3.2	Percentage of the board of directors that are independent, non-executive directors	Corporate Governance report within this Annual Report
3.3	Board member expertise	Corporate Governance report within this Annual Report
3.4	Board level processes	Corporate Governance report within this Annual Report
3.5	Link between executive compensation and the achievement of objectives	Corporate Governance report within this Annual Report
3.6	Organisational structure and key responsibilities	Corporate Governance report within this Annual Report
3.7	Mission and value statements and code of conduct	<i>Sustainability and Santam's business plan</i>
3.8	Mechanisms for shareholders to provide recommendations	Corporate Governance report within this Annual Report
3.9	Basis for identification and selection of stakeholders	<i>Stakeholder engagement and consultation</i>
3.10	Approaches to stakeholder consultation	<i>Stakeholder engagement and consultation</i> as well as within each section of the report
3.11	Use of stakeholder consultation information	Within each section of the report

REFERENCES TO STANDARDS

Index to components of the GRI

In accordance with the recommendations of the Global Reporting Initiative (GRI), the following table indicates where each reporting element is referred to in this report.

GRI indicator	Topic	Section Heading within the Sustainability Report in italics or comment
3.12	Use of information resulting from stakeholder engagements	Within each section of the report
3.13	Precautionary approach	<i>The sustainability umbrella</i>
3.14	Economic, social, and environmental charters	<i>The sustainability umbrella</i>
3.15	Industry and business association memberships	<i>Employee involvement</i>
3.16	Policies and/or systems for managing upstream and downstream impacts	<i>Procurement, Marketplace</i>
3.17	Approach to managing indirect economic, environmental and social impacts	<i>Biophysical environment</i>
3.18	Decisions regarding location and change in operations	NA
3.19	Programmes and procedures pertaining to economic, environmental, and social performance	<i>Workplace</i>
	• Priority and target setting	<i>Workplace</i>
	• Major programmes to improve performance	<i>Workplace</i>
	• Internal communication and training	<i>Workplace</i>
	• Performance monitoring	<i>Workplace</i>
	• Internal and external auditing	<i>Workplace</i>
	• Senior management review	<i>Workplace</i>
3.20	Certification status	JSE SRI status pending
ECONOMIC PERFORMANCE INDICATORS		
EC1	Top-line income (net sales)	Annual report
EC2	Geographic breakdown of markets	Annual report
EC3	Cost of all goods, materials and services	Annual report
EC4	Percentage of contracts paid in accordance with agreed terms	Not measured at present
EC5	Payroll and benefits	Annual report
EC6	Distributions to providers of capital	Annual report
EC7	Increase/decrease in retained earnings	Annual report
EC8	Taxes paid	Annual report
EC9	Subsidies received	Annual report
EC10	Donations to others in community, civil society and other groups	<i>Corporate Social Investment (CSI)</i>
ENVIRONMENTAL PERFORMANCE		
EN1	Total materials used	Low materiality, not measured at present
EN2	Percentage of materials used that are waste from sources external to reporting organisation	Low materiality, not measured at present
EN3	Direct energy use	Low materiality, measured, but not reported at present
EN4	Indirect energy use	Low materiality, not measured at present
EN5	Total water use	Medium materiality, measured, but not reported at present, see <i>Biophysical environment</i>
EN6	Location and size of land owned, leased or managed in biodiversity-rich habitats	Low materiality, not measured at present
EN7	Description of major impacts on biodiversity	Low materiality, not measured at present
EN8	Greenhouse gas emissions	Low materiality, not measured at present
EN9	Use and emissions of ozone-depleting substances	Low materiality, not measured at present
EN10	Significant air emissions by type	Low materiality, not measured at present
EN11	Total amount of waste by type and destination	Low materiality, not measured at present
EN12	Significant discharges to water by type	NA for financial sector
EN13	Significant spills of chemicals, oils, and fuels	NA for financial sector
EN14	Significant environmental impacts of principle products and services	<i>Environmental impact</i>
EN15	Percentage of weight of products sold that is reclaimable versus the percentage that is actually reclaimed	NA for financial sector
EN16	Incidents of and fines for non-compliance associated with environmental issues	No fines
EN27	Strategies for protecting and restoring native ecosystems and species in degraded areas	<i>Indirect environmental impact</i>
EN35	Total environmental expenditures by type	Low materiality, not measured at present

REFERENCES TO STANDARDS

Index to components of the GRI

In accordance with the recommendations of the Global Reporting Initiative (GRI), the following table indicates where each reporting element is referred to in this report.

GRI indicator	Topic	Section Heading within the Sustainability Report in italics or comment
SOCIAL PERFORMANCE INDICATORS:		
LABOUR PRACTICE		
LA1	Breakdown of workforce	<i>Workplace</i>
LA2	Employment creation and average turnover	<i>Workplace</i>
LA3	Trade union representation	<i>Workplace</i>
LA4	Policy and procedures involving information, consultation, and negotiation, with employees over changes in the reporting organisation's operations	<i>Workplace</i>
HEALTH AND SAFETY		
LA5	Occupational accidents and diseases	Low materiality, measured, but not reported
LA6	Health and safety committees	<i>Health and Safety</i>
LA7	Injury, lost days, and absentee rates	Low materiality, measured, but not reported
TRAINING AND DIVERSITY		
LA8	HIV/AIDS policies or programmes	<i>HIV/Aids – prevention and care</i>
LA9	Training per employee level, gender, and ethnic split	<i>Workplace</i>
LA10	Equal opportunity policies or programmes and the monitoring thereof	<i>Workplace</i>
LA11	Composition of senior management and corporate governance bodies	Annual report
LA12	Employee benefits beyond those legally mandated	Benefits extend beyond those legally mandated – available to all employees on company intranet
LA13	Provision for formal worker representation in decision making	<i>Workplace</i>
LA15	Formal agreements with trade unions, covering health and safety at work and proportion of workforce covered by such agreements	<i>Workplace</i>
LA16	Programmes to support the continued employability of employees and to manage career endings	<i>Workplace</i>
LA17	Policies and programmes for skills management	<i>Workplace</i>
HUMAN RIGHTS		
HR1	Policies, guidelines, corporate structure, and procedures to deal with all aspects of human rights	This report
HR2	Evidence of consideration of human rights impacts, as part of investment or procurement is based on the South African Constitution	<i>Procurement</i>
HR3	Policies and procedures to evaluate and address human rights performance within the supply chain and contractors	<i>Procurement, workplace, marketplace</i>
HR4	Global policy and procedures/programmes preventing all forms of discrimination in operations	<i>Procurement, workplace, marketplace</i>
HR5	Freedom of association policy	Implicit in Workplace section
HR6	Child labour policy	NA for financial sector
HR7	Forced and compulsory labour policy	NA for financial sector
SOCIETY		
S01	Policies to manage impacts on communities	CSI and FSC performance
S02	Policy/procedures for addressing bribery	Annual Report
S03	Description of policy/procedures/systems for managing political lobbying and contributions	Annual Report
S04	Awards received	None
S05	Money paid to political parties	Annual Report
PRODUCT RESPONSIBILITY		
PR1	Policy for preserving client health and safety during use of products	NA for financial sector
PR2	Policy/procedures related to product information and labelling	<i>Marketplace</i>
PR3	Policy/procedures relating to client privacy	<i>Marketplace</i>
PR8	Policies/procedures and mechanisms for client satisfaction	<i>Marketplace</i>
PR9	Policies/procedures for adherence to standards and voluntary codes related to advertising	<i>Marketplace</i>
PR8	Policies/procedures and mechanisms for client satisfaction	<i>Marketplace</i>
PR9	Policies/procedures for adherence to standards and voluntary codes related to advertising	<i>Marketplace</i>

“It is up to all of us,
through our National Effort,
to build a winning nation, to do all the
things that will ensure that the mountains
and the hills of our country break forth
into singing before all our people,
and all the trees of the field clap
their hands to applaud the
people’s season of joy.”

Thabo Mbeki

APPROVAL OF ANNUAL FINANCIAL STATEMENTS

TO THE MEMBERS OF SANTAM LIMITED

RESPONSIBILITY FOR AND APPROVAL OF THE GROUP ANNUAL FINANCIAL STATEMENTS

The board of Santam Limited accepts responsibility for the integrity, objectivity and reliability of the group and company financial statements of Santam Limited. Adequate accounting records have been maintained. The board endorses the principle of transparency in financial reporting. The responsibility for the preparation and presentation of the financial statements has been delegated to management.

The responsibility of the external auditors is to express an independent opinion on the fair presentation of the financial statements based on their audit of Santam Limited and its subsidiaries.

The Audit and Risk Committee has confirmed that adequate internal financial control systems are being maintained. There were no material breakdowns in the functioning of the internal financial control systems during the year. The board is satisfied that the financial statements fairly present the financial position, the results of the operations and cash flows in accordance with relevant accounting policies, based on International Financial Reporting Standards (IFRS).

The board is of the opinion that Santam Limited is financially sound and operates as a going concern. The financial statements have accordingly been prepared on this basis.

The financial statements were approved by the board and signed on their behalf by:



D K SMITH
Chairman



SC GILBERT
Chief executive
21 February 2006

SECRETARIAL CERTIFICATION

In accordance with section 268G(d) of the Companies Act, Act 61 of 1973, as amended (the Act), it is hereby certified that the company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of the Act and that such returns are true, correct and up to date.



S BRAY
Group secretary
21 February 2006

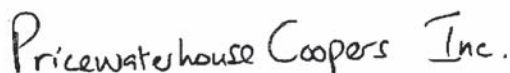
REPORT OF THE INDEPENDENT AUDITORS TO THE MEMBERS OF SANTAM LIMITED

We have audited the financial statements and group annual financial statements of Santam Limited set out on pages 54 to 104 for the year ended 31 December 2005. These financial statements are the responsibility of the directors of the company. Our responsibility is to express an opinion on these annual financial statements based on our audit.

We conducted our audit in accordance with International Standards of Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit includes: examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.

We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements fairly present, in all material respects, the financial position of the company and the group as at 31 December 2005, and the result of their operations and cash flows for the year then ended in accordance with International Financial Reporting Standards and in the manner required by the Companies Act of South Africa.



PRICEWATERHOUSECOOPERS INC.
Registered Accountants and Auditors
Chartered Accountants (SA)
Cape Town
21 February 2006

DIRECTORS' REPORT

1. ACTIVITIES

Santam Limited and its subsidiaries transact all classes of short-term insurance.

2. OPERATING RESULTS

The following tables provide an overview of the operating results for the past two financial years.

	Group		Company	
	2005	2004	2005	2004
	R million	R million	R million	R million
Total assets	14 858	12 540	12 229	11 099
Net asset value attributable to equity shareholders	5 727	5 422	5 455	5 090
Gross written premium	11 355	9 735	9 380	8 369
Underwriting result	775	1 125	648	988
Investment income, realised and fair value gains	1 487	1 277	1 539	1 136
Results of operating activities	2 216	2 359	2 144	2 085
Profit for the year	1 801	1 778	1 834	1 635
Headline earnings per share (cents)	1 540	1 548		
Basic earnings per share (cents)	1 535	1 531		
Dividend per share (cents)	335	290		

3. ORDINARY SHARES ISSUED

The shares in issue have increased to 116 247 937 shares of no par value. In accordance with the vote of approval given with regard to the share incentive scheme at the annual general meeting on 23 January 1997, 1 278 500 share options were awarded during the period under review, 78 500 share options lapsed as a result of resignations and 1 043 310 shares were issued as a result of share options being exercised or released. Full details are set out in note 15 to the annual financial statements.

4. DIVIDENDS

The following dividends were paid and are proposed.

	Group	
	2005	2004
	R million	R million
Interim dividend of 108c per share (2004: 95c)	125	109
A proposed final dividend of 227c per share (2004: 195c)	264	225
	389	334

5. CASH PAYMENT TO SHAREHOLDERS

As part of its process to determine its optimal capital level, Santam Limited made a cash payment of 1 000 cents per share to shareholders on 18 April 2005 by way of a reduction of Santam's stated capital account.

6. SUBSIDIARIES

Details of the holding company's interest in subsidiaries are set out in note 42 to the financial statements. The interest of Santam Limited in the total profits of the subsidiaries after providing for taxation amounted to R148 million (2004: R163 million) for the past financial year. The following changes in shareholding took place during the year:

- On 1 January 2005, Stalker Hutchinson & Associates (Pty) Ltd acquired an additional 25% shareholding in PI Acceptances (Pty) Ltd, increasing its shareholding in the company to 100%.
- On 8 July 2005, Santam Ltd acquired a 100% shareholding in Nova Group Holdings (Pty) Ltd.
- On 14 December 2005, Santam Ltd sold its 100% shareholding in Santam Risk Finance (Pty) Ltd to Nova Group Holdings (Pty) Ltd.
- On 14 December 2005, Santam Ltd sold 33.3% of its shareholding in Nova Group Holdings to Kagiso Treasury Services (Pty) Ltd in a BEE deal.

7. ASSOCIATED COMPANIES

Details of the holding company's interest in associated companies are set out in note 42 to the financial statements. The following changes in shareholding took place during the year:

- On 1 January 2005, Swanvest 120 (Pty) Ltd sold its 29% shareholding in Credit Underwriting Agency (Pty) Ltd.
- On 30 September 2005, Santam Namibia Ltd sold its 27.3% shareholding in 344 Independence Avenue (Pty) Ltd.

DIRECTORS' REPORT

8. RELATED PARTIES

Related party relationships exist between the company, fellow subsidiaries, subsidiaries, associated companies and the company directors. All inter-group transactions have been eliminated from the group's financial statements. For related party transactions and key management personnel, refer to note 39. Details of directors', their interest in the company's shares and remuneration appear in note 12 of the directors' report and note 28 to the financial statements.

9. HOLDING COMPANY

Sanlam Limited, the company's holding company, holds 52.85% of the ordinary share capital.

10. SEGMENT REPORTING

Refer to note 2 to the financial statements for the segmental report.

11. DIRECTORS AND SECRETARY

The directors of the company are:

Non-executive directors:

DK Smith (Chairman)**

JJ Geldenhuys*

JG le Roux**,***

NM Magau***

AR Martin*

EA Moolla

JE Newbury**

P de V Rademeyer*

GE Rudman*

J van Zyl**

BP Vundla***

Executive directors:

SC Gilbert (Chief Executive)

MJ Reyneke

* member of the Audit and Risk Committee

** member of the Human Resources Committee

*** member of the Sustainability Committee

The following changes were made to the company's board of directors during the period under review:

EA Moolla — Appointed on 23 August 2005

The company secretary is

S Bray

P.O. Box 3881, Tyger Valley 7536

Santam Limited, 1 Sportica Crescent, Bellville 7530

The company secretary was in the position for the whole financial year.

12. DIRECTORS' EMOLUMENTS AND INTERESTS IN SHARE CAPITAL

Directors' emoluments

The Group Human Resources committee considers the remuneration of all directors as well as the fees paid to all non-executive directors. The financial statements accompanying this report reflect the total of executive and non-executive directors' earnings and other benefits in accordance with the requirements of the Companies Act, 1973, and listing requirements introduced by the JSE Securities Exchange.

Share options granted to executive directors

The aggregate number of share options granted to the directors of the group during the year was 44 000 (2004: 10 000). The share options were granted on the same terms and conditions as those offered to the employees of the group. In addition to the normal share option scheme, the executive directors also participate in the rainmakers share scheme, a long-term conditional incentive share scheme only for those key employees that have a direct influence on the company's bottom line results and based on achievement of certain pre-set targets.

The outstanding number of share options granted to the directors of the group at the end of the year was 738 000 (2004: 710 400).

DIRECTORS' REPORT

SHARE OPTION SCHEME — DIRECTORS' PARTICIPATION

	As at 31 December 2004	Number of share options during year		Gain per share on options exercised R	Option Price per share** R	Date awarded	As at 31 December 2005
		Granted	Exercised				
Executive Directors							
SC Gilbert	284 100	—			25.20	14/07/03	284 100
	194 000*	—			22.50	14/07/03	194 000
		20 000			71.30	10/11/05	20 000
Sub-total	478 100	20 000	—				498 100
MJ Reyneke	74 000		(14 800)	42.15	26.35	12/11/01	59 200
	8 000		(1 600)	41.35	27.15	20/02/02	6 400
	24 000				21.00	26/02/03	24 000
	116 300*				22.50	1/09/02	116 300
	10 000				35.15	31/03/04	10 000
		24 000			71.30	10/11/05	24 000
Sub-total	232 300	24 000	(16 400)				239 900
TOTAL	710 400	44 000	(16 400)				738 000

* Options granted in terms of the rainmaker share scheme.

** In April 2005 surplus capital (R10 per share) was returned to shareholders. The option price of options granted before that date was reduced with R10.

DIRECTORS' INTEREST IN THE SHARES OF THE COMPANY

	Beneficial holding at 31 December 2005	Beneficial holding at 31 December 2004
Executive Directors		
SC Gilbert	100	100
MJ Reyneke	100	100
Non-executive directors		
JJ Geldenhuys	190 000	190 000
JG le Roux	100	100
NM Magau	100	100
AR Martin	350	350
EA Moolla	200	—
JE Newbury	9 000	9 000
P de V Rademeyer	500	500
GE Rudman	7 000	7 000
DK Smith	100	100
J van Zyl	100	100
BP Vundla	300	300
	207 950	207 750

13. AUDITORS

PricewaterhouseCoopers Incorporated will continue in office in accordance with Section 270 (2) of the Companies Act, 1973.

14. POST BALANCE SHEET EVENTS

There have been no material changes in the affairs or financial position of the company and its subsidiaries since the balance sheet date.

“Change is constant.”

Benjamin Disraeli



CONSOLIDATED BALANCE SHEETS

		Group		Company	
	Notes	2005 R million	2004 R million	2005 R million	2004 R million
ASSETS					
Non-Current assets					
Property and equipment	7	57	55	36	38
Goodwill	8	80	87	—	4
Deferred income tax	18	22	10	—	—
Investments in subsidiaries	9			1 703	1 697
Investments in associates	10	239	230	166	164
Financial assets					
Equity securities:					
— at fair value through income	11	5 046	3 574	4 383	3 398
Debt securities:					
— at fair value through income	11	831	1 613	149	631
Current assets					
Reinsurance assets	12,20	2 194	1 833	1 683	1 470
Deferred acquisition costs		181	146	155	132
Loans and receivables including insurance receivables	13	1 281	1 065	1 126	989
Current income tax assets		—	—	10	—
Cash and cash equivalents	14	4 927	3 927	2 818	2 576
Total assets		14 858	12 540	12 229	11 099
EQUITY					
Capital and reserves attributable to the company's equity holders					
Share capital	15	42	1 171	42	1 171
Other reserves	16	763	636	795	686
Distributable reserves	16	4 922	3 615	4 618	3 233
		5 727	5 422	5 455	5 090
Minority interest		125	60		
Total equity		5 852	5 482	5 455	5 090
LIABILITIES					
Non-Current liabilities					
Cell owners' interest	17	268	47		
Deferred income tax	18	256	148	227	127
Financial liabilities					
Investment contracts	19	250	—		
Current liabilities					
Insurance liabilities	20	6 607	5 083	4 198	3 444
Deferred reinsurance acquisition revenue		109	115	101	111
Financial liabilities					
— at fair value through income	11	—	4	—	4
Provisions for other liabilities and charges	21	145	113	139	109
Trade and other payables	22	1 345	1 167	2 109	1 852
Current income tax liabilities		26	381	—	362
Total liabilities		9 006	7 058	6 774	6 009
Total shareholders' equity and liabilities		14 858	12 540	12 229	11 099

CONSOLIDATED INCOME STATEMENTS

	Notes	Group		Company	
		2005 R million	2004 R million	2005 R million	2004 R million
Gross written premium		11 355	9 735	9 380	8 369
Less: reinsurance premium		2 011	2 012	1 457	1 540
Net premium		9 344	7 723	7 923	6 829
Less: change in unearned premium					
Gross amount		371	(102)	22	73
Reinsurers' share		102	180	109	(63)
Net insurance premium revenue	23	8 871	7 645	7 792	6 819
Investment income	24	482	479	556	406
Income from reinsurance contracts ceded		404	487	364	336
Net realised gains on financial assets		263	202	246	182
Net fair value gains on assets at fair value through income		742	596	737	548
Net income		10 762	9 409	9 695	8 291
Insurance claims and loss adjustment expenses	25	6 905	5 015	5 905	4 364
Insurance claims and loss adjustment expenses recovered from reinsurers	25	(1 112)	(653)	(824)	(521)
Net insurance benefits and claims		5 793	4 362	5 081	3 843
Expenses for the acquisition of insurance contracts	26,27	1 586	1 429	1 427	1 189
Expenses for marketing and administration	26,27,28	1 121	1 216	1 001	1 135
Expenses for asset management services	27	42	41	38	39
Goodwill impairment	8,27	4	2	4	—
Expenses		8 546	7 050	7 551	6 206
Results of operating activities		2 216	2 359	2 144	2 085
Finance costs	29	(12)	(14)	(7)	(1)
Share of profit of associates	10	117	37	98	59
Profit before tax		2 321	2 382	2 235	2 143
Income tax expense	30	(520)	(604)	(401)	(508)
Profit for the year		1 801	1 778	1 834	1 635
Attributable to:					
— equity holders of the company		1 778	1 754	1 834	1 635
— minority interest		23	24	—	—
		1 801	1 778	1 834	1 635
Earnings attributable to the equity holders	31				
Basic earnings per share (cents)		1 535	1 531		
Diluted earnings per share (cents)		1 506	1 509		
Weighted average number of shares (millions)		115.82	114.63		
Dividends per share (cents)	32	335	290		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the company			Minority interest	Total
	Share Capital	Other reserves	Distributable reserves	R million	R million
	R million	R million	R million		
GROUP					
Balance as at 1 January 2004	1 130	577	2 240	53	4 000
Share issue	41				41
Retained income for the period			1 754	24	1 778
Transfer to reserves		109	(109)		—
Share-based payments			8		8
Currency translation differences		(50)			(50)
Dividends paid			(278)	(18)	(296)
Additional interest acquired by minorities				1	1
Balance as at 31 December 2004	1 171	636	3 615	60	5 482
Share issue	27				27
Return of excess capital	(1 156)				(1 156)
Retained income for the period			1 778	23	1 801
Transfer to reserves		131	(131)		—
Share-based payments			10		10
Currency translation differences		(4)			(4)
Dividends paid			(350)	(10)	(360)
Additional interest acquired by minorities				52	52
Balance as at 31 December 2005	42	763	4 922	125	5 852
COMPANY					
Balance as at 1 January 2004	1 130	577	1 977		3 684
Share issue	41				41
Retained income for the period			1 635		1 635
Transfer to reserves		109	(109)		—
Share-based payments			8		8
Dividends paid			(278)		(278)
Balance as at 31 December 2004	1 171	686	3 233		5 090
Share issue	27				27
Return of excess capital	(1 156)				(1 156)
Retained income for the period			1 834		1 834
Transfer to reserves		109	(109)		—
Share-based payments			10		10
Dividends paid			(350)		(350)
Balance as at 31 December 2005	42	795	4 618		5 455

CONSOLIDATED CASH FLOW STATEMENT

	Notes	Group		Company	
		2005 R million	2004 R million	2005 R million	2004 R million
Cash generated from operations	33	2 377	2 108	1 905	1 808
Interest paid		(12)	(14)	(7)	(1)
Income tax paid	34	(778)	(361)	(673)	(243)
Net cash from operating activities		1 587	1 733	1 225	1 564
Cash flows from investing activities					
Cash generated/(utilised) in investment activities		578	(714)	536	(266)
Acquisition of subsidiary, net of cash acquired	35	(61)	—	(48)	(206)
Cash acquired through acquisition of subsidiary	35	281	—	—	—
Purchases of equipment		(21)	(21)	(18)	(16)
Proceeds from sale of equipment		2	9	—	1
Acquisition of associated companies		—	(37)	—	(24)
Capital refund from associated companies		4	—	—	—
Proceeds from sale of associated companies		7	8	6	4
Proceeds from sale of subsidiary		20	9	20	9
Net cash used in investing activities		810	(746)	496	(498)
Cash flows from financing activities					
Proceeds from issuance of ordinary shares		27	41	27	41
Return of surplus capital to shareholders		(1 156)	—	(1 156)	—
Dividends paid to company's shareholders	36	(350)	(278)	(350)	(278)
Dividends paid to minority interests	36	(10)	(18)	—	—
Increase in cell owners' interest		88	25	—	—
Net cash used in financing activities		(1 401)	(230)	(1 479)	(237)
Net increase in cash and cash equivalents		996	757	242	829
Cash and cash equivalents at beginning of year		3 927	3 203	2 576	1 747
Exchange gains/(losses) on cash and cash equivalents		4	(33)	—	—
Cash and cash equivalents at end of year	14	4 927	3 927	2 818	2 576

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL INFORMATION

Santam (the company) and its subsidiaries (together forming the group) underwrite short-term insurance risks, such as those associated with motor, property, personal and liability amongst others. The group does business in Southern Africa, UK and Europe and employs 2 733 people. The company is incorporated and domiciled in South Africa. The address of its registered office is: 1 Sportica Crescent, Tyger Valley, Bellville, 7530, South Africa. Santam has a primary listing on the Johannesburg Securities Exchange (JSE).

2. SEGMENT REPORT

Primary segmentation

Business activity determines the primary segmentation, i.e. insurance activities and investment activities as these activities mainly affect the group's risks and returns.

— Insurance activities: All short-term insurance underwriting activities undertaken by the group

— Investment activities: All investment related activities undertaken by the group

There are no inter-segment transfers or transactions between these segments.

Business activity	Insurance activities R million	Investments activities R million	Total R million
2005			
Gross written premium	11 355		11 355
Net written premium	9 344		9 344
Net earned premium	8 871		8 871
Claims incurred	5 793		5 793
Net commission	1 182		1 182
Management expenses	1 121		1 121
Underwriting result	775	—	775
Investment return on insurance funds	241		241
Net insurance result	1 016	—	1 016
Investment income net of management fee		1 192	1 192
Income from associates		117	117
Goodwill impairment		(4)	(4)
Income before taxation	1 016	1 305	2 321
Total assets	8 662	6 196	14 858
Total liabilities	8 987	19	9 006
2004			
Gross written premium	9 735		9 735
Net written premium	7 723		7 723
Net earned premium	7 645		7 645
Claims incurred	4 362		4 362
Net commission	942		942
Management expenses	1 216		1 216
Underwriting result	1 125	—	1 125
Investment return on insurance funds	203		203
Net insurance result	1 328	—	1 328
Investment income net of management fee		1 019	1 019
Income from associates		37	37
Goodwill impairment		(2)	(2)
Income before taxation	1 328	1 054	2 382
Total assets	7 036	5 504	12 540
Total liabilities	7 046	12	7 058

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Secondary segmentation

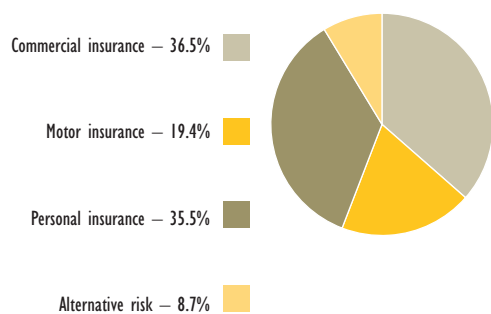
Due to the nature of the group's activities, the group has two secondary segmentations; firstly by insurance class, and secondly by geographical area.

(a) Insurance class

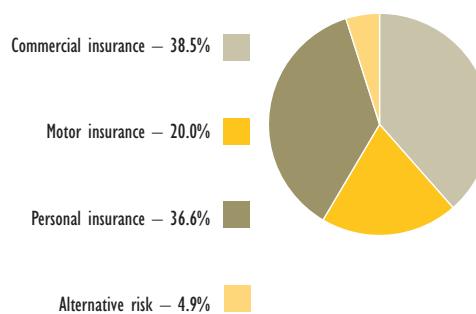
The group's insurance activities are spread over various classes of short-term insurance, presented as a first secondary reporting segment.

Insurance class	Gross written premium R million	Underwriting result R million	Total assets* R million	Total liabilities* R million
2005				
Accident and health	315	14	40	126
Alternative risk	983	12	243	1 332
Crop	286	39	91	156
Engineering	457	80	413	568
Guarantee	88	28	69	90
Liability	712	99	812	1 287
Miscellaneous	130	33	88	141
Motor	4 620	293	118	1 400
Property	3 492	118	451	1 455
Transportation	272	59	51	161
Unallocated	—	—	12 482	2 290
Total	11 355	775	14 858	9 006
Comprising:				
Commercial insurance	4 142	441	2 054	4 217
Commercial motor insurance	2 201	248	67	465
Personal insurance	4 029	74	12	702
Alternative risk	983	12	243	1 332
Unallocated	—	—	12 482	2 290
Total	11 355	775	14 858	9 006

Business portfolio composition — 2005



Business portfolio composition — 2004



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Insurance class	Gross written premium R million	Underwriting result R million	Total assets* R million	Total liabilities* R million
2004				
Accident and health	282	1	39	100
Alternative risk	475	4	115	802
Crop	380	20	238	312
Engineering	380	86	242	321
Guarantee	91	11	97	96
Liability	633	121	630	905
Miscellaneous	132	34	90	133
Motor	4 085	496	110	1 266
Property	3 022	305	375	1 131
Transportation	255	47	46	132
Unallocated	—	—	10 558	1 860
Total	9 735	1 125	12 540	7 058
Comprising:				
Commercial insurance	3 747	500	1 789	3 264
Commercial motor insurance	1 946	301	65	454
Personal insurance	3 567	320	13	678
Alternative risk	475	4	115	802
Unallocated	—	—	10 558	1 860
Total	9 735	1 125	12 540	7 058

* Only reinsurance assets and insurance liabilities, including deferred acquisition costs have been allocated to insurance classes. The balance of assets and liabilities are disclosed for segment purposes under unallocated.

(b) Geographical

The group operates in two main geographical areas, presented as a second secondary reporting segment.

Geographical	Gross written premium R million	Underwriting result R million	Total assets R million	Total liabilities R million
2005				
Southern Africa	10 578	761	13 118	7 937
UK & Europe	777	14	1 740	1 069
Total	11 355	775	14 858	9 006
2004				
Southern Africa	9 171	1 099	11 226	6 365
UK & Europe	564	26	1 314	693
Total	9 735	1 125	12 540	7 058

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principle accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of presentation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through income.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

The group did not early adopt any of the IFRS standards.

All amounts in the notes are shown in Rand, rounded to the nearest million, unless otherwise stated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(i) Transition to IFRS

The date of transition to IFRS for the group is 1 January 2004, as required by IFRS. The group's opening balance sheet at 1 January 2004 has been restated to reflect all existing IFRS policies at 31 December 2005. At transition, IFRS 1 allows a number of exemptions and exceptions to the retrospective application principle upon adoption of IFRS. The group has taken advantage of the following transitional arrangements:

Cumulative translation differences

The group has elected that the cumulative translation differences for foreign operations were deemed to be zero at the date of transition. The criteria of IAS 21, The Effects of Changes in Foreign Exchange Rates, will be applied prospectively from this date.

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. No other adjustments were made apart from normal impairment testing.

Property and equipment

There were no adjustments to the value of property 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 or granted after 7 November 2002, but which had vested prior to 1 January 2005.

Designation of previously recognised financial instruments

The group has elected to designate certain financial instruments to be classified as "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 exception is 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.

Estimates

Where estimates have previously been made under SA GAAP, consistent estimates have been made for the same date 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, cash flows from investing activities and cash flows from financing activities as a result of the adoption of IFRS.

(ii) New accounting standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations:

A number of new accounting standards and IFRIC interpretations have been published that are mandatory for accounting periods beginning on or after 1 January 2006. The group's assessment of the impact of these new standards and interpretations is set out below:

- The following standards and interpretations are not regarded to be applicable to the Santam Group due to the nature of standards or interpretation:

		Effective date
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 Jan 2006
Amendments to IFRS 1 and IFRS 6	Exploration for and Evaluation of Mineral Resources	1 Jan 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment	1 Dec 2005
IFRIC 7	Applying the Restatement Approach under IAS 29 Financial Reporting in Hyperinflationary Economies	1 March 2006

- The group has not early adopted any of the standards and interpretations listed below. The impact of the implementation of these standards and interpretations have not been assessed in detail. However, it is expected that the application of these standards and interpretations will not have a significant impact on the group's reported results, financial position and cash flows.

		Effective date
IAS 21 (Amendment)	Net Investment in a Foreign Operation	1 Jan 2006
IFRS 7	Financial Instruments: Disclosures	1 Jan 2007
IFRIC 8	Scope of IFRS 2	1 May 2006
Amendments to IAS 39 and IFRS 4	Recognition and measurement of Financial Guarantee Contracts	1 Jan 2006
Amendments to IAS 39	The Fair Value Option and Cash Flow Hedge Accounting of Forecast Intra-group Transactions	1 Jan 2006
Amendments to IAS 1	Amendments to IAS 1 Presentation of Financial Statements — Capital Disclosures	1 Jan 2007
IFRIC 4	Determining Whether an Arrangement Contains a Lease	1 Jan 2006
Amendments to IAS 19	Employee benefits — Actuarial Gains and Losses, Group Plans and Disclosures	1 Jan 2006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.2 Consolidation

(a) Subsidiaries and business combinations

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effects of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the group. Consolidation is discontinued from the date on which control ceases.

The group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred as assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill (see note 3.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

The group applies the modified parent company model with respect to transactions with minority shareholders, whereby the full excess of the cost of the transaction over the acquirer's increase in interest in previously recognised assets and liabilities is allocated to goodwill.

Intra-group transactions, balances and unrealised gains on intra-group transactions are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the group.

The company accounts for its investment in subsidiaries at cost less provision for impairment.

(b) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition (see note 3.6).

The group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates. Unrealised losses are also eliminated, unless the transaction provides evidence of an impairment of the asset transferred. Associates' accounting policies have been changed where necessary to ensure consistency with the policies adopted by the group.

3.3 Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

3.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in Rand value, which is the group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Translation differences on non-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency, are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as the foreign entity's assets or liabilities and are translated at the closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

3.5 Property and equipment

(a) Property

Property consists of a capitalised property lease in London. It is carried at fair value, based on regular comparisons to prevailing market prices. Surpluses arising on revaluation are credited to the income statement. Property is not depreciated.

(b) Equipment

Equipment is reflected at depreciated cost prices less impairment charges. Depreciation is provided for on a straight-line basis, taking into account the residual value and estimated useful lives of the assets, which vary from three to five years. The assets' residual values and useful lives are reviewed at each balance sheet date and adjusted if appropriate. All repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

(c) Leases

Leases of assets, under which the lessor effectively retains all the risks and benefits of ownership, are classified as operating leases. Payments made under operating leases are charged to the income statement in equal instalments over the period of the lease. When an operating lease is terminated, any payment required by the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

3.6 Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the acquisition date. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates. Goodwill is not amortised but is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment charges recognised on goodwill is not reversible. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Cash-generating units (CGU's) are identified according to country of operation with further allocation to business entities, but are not allocated to specific business segments.

3.7 Financial assets

The group classifies its financial assets into the following categories: financial assets at fair value through income, loans and receivables and cash and cash equivalents. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this at every reporting date.

(a) Financial assets at fair value through income

This category has two sub-categories: financial assets held for trading and those designated at fair value through income at inception. A financial asset is classified as a financial asset at fair value through income at inception if acquired principally for the purpose of selling in the short term, if it forms part of a portfolio of financial assets in which there is evidence of short term profit-taking, or if so designated by management in terms of the group's long term investment strategy. Derivatives are classified as at fair value through income except when designated as hedges.

Regular way purchases and sales of investments are recognised on trade date — the date on which the group commits to purchase or sell the asset. Investments are initially recognised at cost. Investments are derecognised when the rights to receive cash flows from the investments have expired or where they have been transferred and the group has also transferred substantially all risks and rewards of ownership.

Financial assets at fair value through income are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through income' category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active or if they are unquoted, the group establishes fair value by using valuation techniques. These include discounted cash flow analysis, use of recent arm's length transactions and price earnings techniques.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market other than those that the group intends to sell in the short term or that it has designated as at fair value through income. Receivables arising from insurance contracts are also classified in this category and are reviewed for impairment as part of the impairment review of loans and receivables. Loans and receivables are carried at amortised cost using the effective interest method.

(c) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments and bank overdrafts.

3.8 Impairment of assets

(a) Financial assets carried at amortised cost

The group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset that can be reliably estimated. Objective evidence that a financial asset is impaired includes observable data that comes to the attention of the group about the following events:

- (i) significant financial difficulty of the issuer or debtor;
- (ii) a breach of contract, such as a default or delinquency in payments;
- (iii) it becoming probable that the issuer or debtor will enter bankruptcy or other financial reorganisation;
- (iv) the disappearance of an active market for that financial asset because of financial difficulties; or
- (v) observable data indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

- adverse changes in the payment status of issuers of debtors in the group; or
- national or local economic conditions that correlate with defaults on the assets in the group.

The group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant. If there is objective evidence that an impairment loss has been incurred on loans and receivables, the amount of the loss is measured as the difference between the asset's carrying amount and the present value if estimated future cash flows (excluding future credit losses that have been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an impairment account and the amount of the loss is recognised in the income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as improved credit rating), the previously recognised impairment loss is reversed by adjusting the impairment account. The amount of the reversal is recognised in the income statement.

(b) Impairment of other non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3.9 Derivative financial instruments

Derivatives are used for protection of investment portfolio's. Derivatives are initially recognised in the balance sheet at cost and subsequently re-measured at their fair value. These derivatives are regarded as non-hedge derivatives. Changes in the fair value of such derivative instruments are recognised immediately in the income statement. Quoted derivative instruments are valued at the South African Futures Exchange prices, while unquoted derivatives are valued independently in terms of the structured product contract.

3.10 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

3.11 Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. Incremental costs directly attributable to the issue of equity instruments as consideration for the acquisition of a business are included in the cost of acquisition.

3.12 Insurance and investment contracts — classification

The group issues contracts that transfer insurance risk or financial risk or both.

Insurance contracts are those contracts that transfer significant insurance risk. Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

3.13 Insurance contracts

The group developed its accounting policies for insurance contracts before the adoption of IFRS 4 and in the absence of a specific standard for insurance contracts. The directors used their judgement in developing a set of accounting policies for the recognition and measurement of rights and obligations arising from insurance contracts issued and reinsurance contracts held that provides the most useful information to users of the group's financial statements. In making this judgement, the directors primarily considered the guidance issued by the South African Institute of Chartered Accountants.

Insurance contracts are classified into three main categories, depending on the duration of risks.

(a) Short-term insurance

Short-term insurance are the providing of benefits under short-term policies which includes engineering, guarantee, liability, miscellaneous, motor, accident and health, property, transportation and crop type policies or a contract comprising a combination of any of those policies. Motor, property and personal insurance contracts mainly compensate the group's customers for damage suffered to their properties or for the value of property lost. Customers who undertake commercial activities on their premises could also receive compensation for the loss of earnings caused by the inability to use the insured properties in their business activities (business interruption cover).

Recognition and measurement

Premiums

Gross premiums exclude value-added tax and inter-group reinsurance treaty premiums. Premiums are accounted for as income when the risk related to the insurance policy incepts. Inward reinsurance agreement premiums are accounted for on a claims notified basis. Premiums are shown before deduction of commission.

Provision for unearned premiums

The provision for unearned premiums represents that part of the current year's premiums that relate to risk periods that extend to the following year. This is reflected as an unearned premium provision in the balance sheet. Unearned premium is calculated using the 365th method, except for crop insurance where allowance is made for uneven exposure of risk throughout the period that the policies are held.

Provision for unexpired risk

Provision is made for underwriting losses that may arise from unexpired risks when it is anticipated that unearned premiums will be insufficient to cover future claims.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Provision for claims

Provision is made on a prudent basis for the estimated final cost of all claims that had not been settled on the accounting date, less amounts already paid. Claims and loss adjustment expenses are charged to income as incurred based on the estimated liability for compensation owed to contract holders or third parties damaged by the contract holders. The company's own assessors or external assessors individually assess claims. Claims provision includes an estimated portion of the direct expenses of the claims and internal assessors department.

Provision for claims incurred but not reported

Provision is also made for claims arising from insured events that occurred before the close of the accounting period, but which had not been reported to the company by that date.

Deferred policy acquisition costs (DAC)

Commissions and other acquisition costs that vary with and are related to securing new contracts and renewing existing contracts are deferred over the period in which the related premiums are earned, and is recognised as a current asset. All other costs are recognised as expenses when incurred.

Reinsurance contracts held

Contracts entered into by the group with reinsurers under which the group is compensated for losses on one or more contracts issued by the group and that meet the classification requirements for insurance contracts in note 3.12 are classified as reinsurance contracts held. Contracts that do not meet these classification requirements are classified as financial assets. Insurance contracts entered into by the group under which the contract holder is another insurer (inwards reinsurance) are included with insurance contracts.

The benefits to which the group is entitled under its reinsurance contracts held are recognised as assets. These assets consist of short-term balances due from reinsurers (classified within loans and receivables) on settled claims, as well receivables (classified as reinsurance assets) that are dependent on the expected claims and benefits arising under the related reinsured insurance contracts. Amounts recoverable from or due to reinsurers are measured consistently with the amounts associated with the reinsured insurance contracts and in accordance with the terms of each reinsurance contract. Reinsurance liabilities are primarily premiums payable for reinsurance contracts and are recognised as an expense when incurred.

The group assesses its reinsurance assets for impairment on a six monthly basis. If there is objective evidence that the reinsurance asset is impaired, the group reduces the carrying amount of the reinsurance asset to its recoverable amount and recognises that impairment loss in the income statement. The group gathers the objective evidence that a reinsurance asset is impaired using the same process adopted for financial assets held at amortised cost. The impairment loss is also calculated following the same method used for these financial assets.

Contingency reserve

A contingency reserve is maintained at 10% of net written premium. The utilisation of this reserve, in case of a catastrophe, is subject to the approval of the Financial Services Board. Transfers to this reserve are reflected in the statement of changes in equity, and are indicated in the balance sheet as part of 'Other reserves' under shareholders' funds.

Receivables and payables related to insurance contracts

Receivables and payables are recognised when due. These include amounts due to and from agents, brokers and insurance contract holders and is included under loans and receivables.

If there is objective evidence that the insurance receivable is impaired, the group reduces the carrying amount of the insurance receivable accordingly and recognises that impairment loss in the income statement. The group gathers the objective evidence that an insurance receivable is impaired using the same process adopted for loans and receivables. The impairments loss is also calculated under the same method used for these financial assets.

Salvage reimbursements

Some insurance contracts permit the group to sell (usually damaged) property acquired in setting a claim (i.e., Salvage). The group may also have the right to pursue third parties for payment of some or all costs (i.e., subrogation). Estimates of salvage recoveries are included as an allowance in the measurement of the insurance liability for claims. The allowance is the amount that can reasonably be recovered from the disposal of the property.

Subrogation reimbursements are also considered as an allowance in the measurement of the insurance liability for claims and are recognised in other assets when the liability is settled. The allowance is the assessment of the amount that can be recovered from the action against the liable third party.

(b) Long-term insurance

These contracts insure events associated with human life (for example death, or survival) over a long duration. Premiums are recognised as revenue when they become payable by the contract holder. Premiums are shown before deduction of commission. Benefits are recorded as an expense when they are incurred.

The liabilities under life insurance contracts are valued in terms of the Financial Soundness Valuation (FSV) basis containing a discounted cash flow valuation based on best estimates of future cash flows plus margins for adverse deviation as prescribed by PGN 104 issued by the Actuarial Society of South Africa and are reflected as 'Financial liabilities' in the balance sheet. The operating surpluses or losses arising from life insurance contracts are determined by the annual valuation. These surpluses or losses are arrived at after taking into account the movement in actuarial liabilities under unmaturing policies, provisions for profit commissions accrued and adjustments to contingency and other reserves within the policyholder liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(c) Cell insurance

The group offers cell captive facilities to clients. Cells are classified as special purpose entities and are regarded and being controlled by the cell owner. For this reason these cell captive facilities are not consolidated by the group.

In the case of third party cells, the insurer is still the principal to the insurance transaction, although the business is written on behalf of the cell owner. The insurer, however, in substance reinsures this business to the cell as the cell owner remains responsible for the solvency of the cell. The cell owners' interest represents the cell owners' funds held by the insurer.

(d) Liability adequacy test

At each balance sheet date, liability adequacy tests are performed to ensure the adequacy of the contract liabilities net of related DAC assets. In performing these tests, current best estimates of future contractual cash flows and claims handling and administration expenses are used. Any deficiency is immediately charged to profit or loss initially by writing off DAC and by subsequently establishing a provision for losses arising from liability adequacy tests (the un-expired risk provision). Any DAC written off as a result of this test cannot subsequently be reinstated.

3.14 Investment contracts

Policyholder contracts that do not transfer significant insurance risk are classified as investment contracts. These contracts are disclosed on the balance sheet as 'Financial liabilities' under non-current liabilities. The proceeds from payments against these contracts are excluded from the income statement and recognised directly against the liability. The results from investment contracts included in the income statement is limited to facility and administration fees earned as well as fair value gains or losses from the revaluation of assets underlying the investment contracts that are not attributable to policyholders.

3.15 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The principal temporary differences arise from depreciation on fixed assets, fair valuation of investments and provisions. Deferred tax assets relating to the carry forward of unused tax losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised.

3.16 Employee benefits

(a) Pension fund benefits

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Other post-employment obligations

The group has provided in full for its contractual medical contribution commitments in respect of pensioners. The present value of this post-retirement medical aid obligation is actuarially determined annually and any deficit on the underlying security is immediately recognised in the income statement.

(c) Share-based compensation

The group operates an equity-settled share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and premium income growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) when the options are exercised.

(d) Termination benefits

Termination benefits are payable when employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(e) Profit-sharing and bonus plans

The group recognise a liability and an expense for bonuses and profit sharing, based on a formula that takes into consideration the profit attributable to the company's shareholders after certain adjustments. The group recognises a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

3.17 Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. Provision is made for the estimated liability for annual leave and long-service leave as a result of services rendered by employees up to the balance sheet date.

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3.18 Trade and other payables

Trade and other payables are carried at cost.

3.19 Other revenue recognition

Interest income

Interest income from financial assets that are classified as fair value through the income is recognised using the effective interest method.

Dividend income

Dividend income from financial assets classified as fair value through income is recognised on the last date to register. Preference share dividends are recognised using the effective interest rate method.

3.20 Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the board of directors approves the dividend.

3.21 Solvency Margin

The solvency margin is calculated by expressing the total shareholders' funds as a percentage of the consolidated net written premium for the past 12 months.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

The group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) The ultimate liability arising from claims made under insurance contracts

The estimation of the ultimate liability arising from claims made under insurance contracts is the group's most critical accounting estimate. Several sources of uncertainty have to be considered in estimating the liability that the group will ultimately be exposed to for such claims.

The risk environment can change quickly and unexpectedly owing to a wide range of events or influences. The group is constantly refining the tools with which it monitors and manages risks to place the group in a position to assess risk situations appropriately, despite the greatly increased pace of change. The growing complexity and dynamism of the environment in which we operate means that there are natural limits, however. There cannot and never will be absolute security when it comes to identifying risks at an early stage, measuring them sufficiently, or correctly estimating their real hazard potential.

Refer to note 5 — Management of Insurance and Financial risks for further detail on the estimation of the claims liability.

(b) Management expense provisions

At year end, the group is exposed to various liabilities of uncertain timing or amount. Provision is made for such liabilities if a present obligation has arisen, payment is probable, and the amount can be estimated reliably. Management uses its discretion to estimate the expenditure required to settle the present obligation at the balance sheet date, i.e. the amount that the group would rationally pay to settle the obligation or to transfer it to a third party.

(c) Provision for doubtful debt

Management considers each debtor at the balance sheet date to determine whether it is recoverable or if its recovery is doubtful. Each debtor is assessed individually and provision is made for those where indications exist that recovery is uncertain or where clear evidence exist that the outstanding amount will not be recovered.

(d) Share-based payments

Refer to note 15 below.

5. MANAGEMENT OF INSURANCE AND FINANCIAL RISK

The group issues contracts that transfer insurance risks, financial risks, or both. This section summarises these risks and the way the group manages them.

5.1 Insurance risk

Through the Strategic Enterprise Risk Management process (SERM) that is implemented across the entire group, the board of directors and Executive committee manages the insurance risk according to the group's risk appetite.

The risks under any one insurance contract are the frequency with which the insured event occurs and the uncertainty of the amount of the resulting claim. For a portfolio of insurance contracts where the theory of probability is applied to pricing and provisioning, the principle risk that the group faces is that the actual claims and benefit payments exceed the carrying amount of the insurance liabilities. By the very nature of an insurance contract, this risk is random and therefore unpredictable. Changing risk parameters and unforeseen factors, such as patterns of crime, and economical and geographical circumstances, may result in unexpectedly large claims. Insurance events are random and from one year to the next the actual number of claims and benefits will vary from the estimate established by means of statistical techniques.

The net claims ratio for the group, which is important in monitoring insurance risk, has developed as follows over the past seven years:

Loss history	2005	2004	2003	2002	2001	2000	1999
Claims paid and provided %*	65.3	57.0	64.8	70.7	70.7	72.0	70.0

* Expressed as a percentage of net earned premiums.

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Factors that aggravate insurance risk include lack of risk diversification in terms of type and amount of risk, geographical location, and type of industry covered. Experience shows that the larger the portfolio of similar insurance contracts, the smaller the relative variability about the expected outcome will be, therefore a more diversified portfolio is less likely to be affected across the board by a change in any subset of the portfolio. The group has developed its insurance underwriting strategy to diversify the type of insurance risks accepted to achieve within each of these categories a sufficiently large population of risks to reduce the variability of the expected outcome. The insurance risk arising from these contracts is not concentrated in any of the geographical areas in which the group operates. The group underwrites insurance contracts in southern Africa as well as in Europe and the United Kingdom.

The group has the right to re-price and change the conditions risks on renewal. It also has the ability to impose deductibles and reject fraudulent claims. Only extensive expertise, well-maintained data resources, and selective underwriting based on this information can produce risk-adequate prices and conditions. The effects of the risk of change influence both premium calculations and the reserves.

Through selective underwriting, client focused claims handling and state-of-the-art reserving methods, the group endeavour to minimise risks resulting from the risk of change. Claims are analysed separately for long-tail and short-tail claims. The development of large losses and catastrophes is analysed separately. Short-tail claims can be estimated with greater reliability, and the group estimation processes reflect all the factors that influence the amount and timing of cash flows from these contracts. The shorter settlement period for these claims allows the group to achieve a higher degree of certainty about the estimated cost of claims, and relatively lower levels of IBNR are held at year-end. However, the longer time needed to assess the emergence of a long-tail claim makes the estimation process more uncertain for such claims. The uncertain nature of the costs of this type of claim causes greater uncertainty in the estimates, hence the higher level of IBNR. At year-end, the group believes that its liabilities for long-tail and short-tail claims are adequate.

The group generally establishes provisions for uncertain liabilities using actuarial methods. Claim provisions for all classes of business are regularly checked by means of internal reviews and audits to make sure they are sufficient. These analyses draw on the expertise and experience of a wide range of specialists, such as actuaries, underwriting and accounting experts.

The group obtains third party reinsurance cover to reduce risks from single events or accumulation of risk that could have a significant impact on the current year's earnings or the company's capital. This cover is placed on the local and international reinsurance market. The core components comprise of:

- An individual excess-of-loss cover for, among other property, liability and engineering risks, which provides protection to limit losses to 1% of free assets per any event.
- Catastrophe cover purchased, equates to 1,9% of the accumulated value of the highest accumulation zone.
- Moreover we also have a net loss ratio protector in place.

The board approves the reinsurance renewal process on an annual basis. The major portion of the reinsurance programme is placed with external reinsurers that have a credit rating of no less than A- from S&P or AM Best.

5.2 Financial risk

The group is exposed to various financial risks in connection with its current operating activities, such as foreign currency risk, interest rate risk, credit risk, market risk, and liquidity risk. These risks contribute to the key financial risk that the proceeds from the group's financial assets might not be sufficient to fund the obligations arising from insurance and investment policy contracts.

The group manages these risks through various operational risk management processes, which all form part of an asset liability management framework. These processes have been developed to achieve long-term investment returns in excess of the group's obligations under insurance contracts.

The group has a governance structure in place to manage investment strategy and policy. The board approves this structure and the investment committee monitors compliance with predetermined mandates by third party investment managers. An integrated management platform is in place to assist with the analysis and reporting of investment risk.

Additional information on the management of financial risks is provided below.

(a) Derivative financial instruments

The business uses derivative financial instruments not for speculative purposes, but to manage financial risks and to preserve its capital base. Predetermined mandates control the use of derivative financial instruments.

(b) Market risk – interest and equities

The business' operations are exposed to market risk. The risk arises from the uncertain movement in fair value or net asset value of the investments that stems principally from potential changes in sentiment towards the investment, the variability of future earnings reflected in the current perceived value of the investment, and the fluctuations in interest rates and foreign currency exchange rates. Policyholders' and shareholders' investments in equities are valued at fair value and are therefore susceptible to market fluctuations. Comprehensive measures and limits are in place to control the exposure of Santam's investments to market risk.

Short-term insurance contracts:

For short-term insurance contracts, the group has matched insurance liabilities with cash and cash equivalents. The non-equity portion of the financial assets in this portfolio of the group is characterised by interest rate risk. Short-term insurance liabilities are not directly sensitive to the level of market interest rates, as they are undiscounted and contractually non-interest-bearing.

(c) Operational risk

Operational risk is the risk of loss due to factors such as inadequate systems, management failure, inadequate internal controls, fraud, or human error. The business mitigates these risks through its culture and values, a comprehensive system of internal controls, internal audit, forensic and compliance functions and other measures such as back-up facilities, contingency planning and insurance.

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The initiation of transactions and their administration is conducted based on the segregation of duties, designed to ensure the correctness, completeness and validity of all transactions. Control is further strengthened through the settlement of transactions through custodians. The custodians are also responsible for the safe custody of the entity's securities. To ensure validity, all transactions are confirmed with counterparties independently from the initial executors.

(d) Currency risk

The group's exposure to currency risk is mainly in respect of foreign investments made in line with the long-term strategy approved by the board for seeking desirable international diversification of investments to expand its income stream. The company has investments in foreign subsidiaries whose net assets are exposed to currency translation risk, primarily to British pound and Euro. Refer to note 2 (Segment report). In addition, the southern African operations have foreign exchange exposure in respect of net monetary assets denominated in foreign currency.

The following assets and liabilities denominated in foreign currencies are included in the balance sheet:

31 December 2005	Euro	United States Dollar	British Pound
Equities and similar securities	—	—	204
Debentures, insurance policies, public sector stocks and other loans	—	—	472
Cash, deposits and similar securities	246	114	269
Trade and other receivables	8	—	263
Trade and other payables	(5)	—	(29)
Other net liabilities	(65)	—	(689)
Foreign currency exposure	184	114	490
Exchange rates:			
Closing rate	7.5122	6.3458	10.9160
Average rate	7.8682	6.3811	11.5157
31 December 2004			
Equities and similar securities	—	—	—
Debentures, insurance policies, public sector stocks and other loans	—	—	658
Cash, deposits and similar securities	190	15	130
Trade and other receivables	8	—	173
Trade and other payables	(1)	—	(31)
Other net assets/liabilities	1	—	(502)
Foreign currency exposure	198	15	428
Exchange rates:			
Closing rate	7.6487	5.6704	10.8277
Average rate	7.8035	6.4588	11.6914

(e) Credit risk

Credit risk arises from the inability or unwillingness of a counter party to a financial instrument to discharge its contractual obligations. Santam determines counter-party credit quality by reference to ratings from independent ratings agencies or, where such ratings are not available, by internal analysis. Santam seeks to avoid unacceptable concentration of credit risk to groups of counter-parties, to business sectors, product types, etc.

The Santam group's financial instruments do not represent a concentration of credit risk, because the group deals with a variety of major banks and its accounts receivable are spread among a number of major re-insurance companies, customers and geographic areas.

Amounts receivable in terms of short-term insurance business are secured by the underlying value of unpaid policy benefits in terms of the policy contract. An appropriate level of provisions is maintained. Exposure to outside financial institutions concerning deposits and similar transactions is monitored against approved limits.

Reinsurance is used to manage insurance risk. This does not however, discharge the group's liability as primary insurer. If a reinsurer fails to pay a claim for any reason, the group remains liable for the payment to the policyholder. The creditworthiness of reinsurers is considered annually by reviewing their financial strength prior to finalisation of any contract. The group ensures that there is no concentration risk within a single reinsurer.

(f) Liquidity risk

Liquidity risk is the risk that the business will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk arises when there is mismatching between the maturities of liabilities and assets.

The group is exposed to daily calls on its available cash resources from claims. Liquidity risk is the risk that cash may not be available to pay obligations when due at a reasonable cost. The board sets limits on the minimum proportion of maturing funds available to meet such calls.

The group has significant liquid resources to cover its obligations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(g) Legal risk

Legal risk is the risk that the group will be exposed to contractual obligations which have not been provided for. The risk arises from the uncertainty of the enforceability, through legal or juridical processes, of the obligations of Santam's clients and counterparties, including contractual provisions intended to reduce credit and product exposure by providing for the netting of mutual obligations.

(h) Capital adequacy risk

Capital adequacy risk is the risk that there are insufficient reserves to provide for variations in actual future experience that is worse than what has been assumed in the financial soundness valuation. The group must maintain a capital balance that will be at least sufficient to meet obligations in the event of substantial deviations from the main risk assumptions affecting the group's business. This is used to determine required capital levels that will ensure sustained solvency within an acceptable confidence level.

6. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Restatement of financial information for the year ended 31 December 2004 under International Financial Reporting Standards (IFRS).

INTRODUCTION

From 2005 onwards the Santam Group (group) is required to prepare its consolidated financial statements in accordance with IFRS and JSE Limited's Listing Requirements. This change applies to all financial reporting for accounting periods beginning on or after 1 January 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.

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 were effective at 31 December 2005.

This note includes the following:

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

BASIS OF PREPARATION

The group prepared the consolidated balance sheet at 31 December 2004 and the consolidated 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 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 financial information, which has been prepared in accordance with IFRS and policies adopted in preparation of 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'es expected to be applicable at 31 December 2005. At transition, IFRS 1 allows a number of exemptions and exceptions to the retrospective application principle. The group elected the following 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. The criteria of IAS21, the effects of changes in Foreign Exchange Rates will be applied prospectively from this date.

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 or granted after 7 November 2002, but which had vested prior to 1 January 2005.

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 does not apply to the group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

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 1, 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 that the group 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 1, the group has elected to transfer the cumulative translation losses of R67 million for foreign operations as at 1 January 2004 to retained income.

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.

Operating lease costs

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. The impact on opening shareholders’ equity is a debit of R27 million.

Accounting treatment of cells

The group offers cell captive facilities to clients. Cells are classified as special purpose entities and are regarded as being controlled by the cell owner. For this reason these cell captive facilities are not consolidated by the group. In the case of third party cells, the insurer is still the principal to the insurance transaction, although the business is written on behalf of the cell owner. The insurer, however, in substance reinsures this business to the cell as the cell owner remains responsible for the solvency of the cell.

The cell owners’ interest represents the cell owners’ funds held by the insurer.

TRANSITION TO IFRS — CONSOLIDATED BALANCE SHEETS

	Restated At 31 December 2004 R million	Restated At 1 January 2004 R million
ASSETS		
Non-Current assets		
Property and equipment	55	70
Goodwill	87	110
Deferred income tax	10	14
Investments in associates	230	166
Financial assets		
Equity securities:		
— at fair value through income	3 574	2 727
Debt securities:		
— at fair value through income	1 613	936
Current assets		
Reinsurance assets	1 833	2 148
Deferred acquisition costs	146	154
Loans and receivables including insurance receivables	1 065	1 166
Cash and cash equivalents	3 927	3 203
Total assets	12 540	10 694
EQUITY		
Capital and reserves attributable to the company's equity holders		
Share capital	1 171	1 130
Other reserves	636	577
Distributable reserves	3 615	2 240
	5 422	3 947
Minority interest	60	53
Total equity	5 482	4 000
LIABILITIES		
Non-Current liabilities		
Cell owners' interest	47	—
Deferred income tax	148	123
Current liabilities		
Insurance contracts	5 083	5 025
Deferred reinsurance acquisition revenue	115	131
Financial liabilities		
— at fair value through income	4	—
Provisions for other liabilities and charges	113	60
Trade and other payables	1 167	1 188
Current income tax liabilities	381	167
Total liabilities	7 058	6 694
Total shareholders' equity and liabilities	12 540	10 694

TRANSITION TO IFRS — CONSOLIDATED INCOME STATEMENTS

	Restated Year to 31 December 2004 R million	
Gross written premium	9 735	
Less: reinsurance premium	2 012	
Net premium	7 723	
Less: change in unearned premium		
Gross amount	(102)	
Reinsurers' share	180	
Net insurance premium revenue	7 645	
Investment income	479	
Income from reinsurance contracts ceded	487	
Net realised gains on financial assets	202	
Net fair value gains on assets at fair value through income	596	
Net income	9 409	
Insurance claims and loss adjustment expenses	5 015	
Insurance claims and loss adjustment expenses recovered from reinsurers	(653)	
Net insurance benefits and claims	4 362	
Expenses for the acquisition of insurance contracts	1 429	
Expenses for marketing and administration	1 216	
Expenses for asset management services	41	
Goodwill impairment	2	
Expenses	7 050	
Results of operating activities	2 359	
Finance costs	(14)	
Share of profit of associates	37	
Profit before tax	2 382	
Income tax expense	(604)	
Profit for the year	1 778	
Attributable to:		
— equity holders of the Company	1 754	
— minority interest	24	
	1 778	
	SA GAAP Year to 31 December 2004	IFRS Year to 31 December 2004
Earnings attributable to equity shareholders		
Earnings per share		
Basic earnings per share (cents)	1 513	1 531
Diluted earnings per share (cents)	1 492	1 509
Weighted average number of shares (millions)	114.6	114.6

TRANSITION TO IFRS — RECONCILIATION OF INCOME STATEMENT

	Year to 31 December 2004 R million
Net Profit attributable to equity holders of the company	
As previously reported under SA GAAP	1 734
Goodwill amortisation reversed	49
Impairment of goodwill included in other operating expenses	(2)
Impairment of goodwill included in share of profit from associates	(19)
Share-based payments	(8)
Operating leases*	—
As reported under IFRS	1 754
* After rounding the effect of the lease adjustment was less than R1 million	
Headline earnings reconciliation	
Profit attributable to ordinary shareholders for the period	1 754
Adjusted for: non-trading items	
Impairment of goodwill included in other operating expenses	2
Impairment of goodwill included in share of profit of associates	19
Headline earnings	1 775

TRANSITION TO IFRS — RECONCILIATION OF TOTAL ASSETS, LIABILITIES AND EQUITIES

	Assets		Liabilities		Equity	
	At	At	At	At	At	At
	31 December	1 January	31 December	1 January	31 December	1 January
	2004	2004	2004	2004	2004	2004
	R million	R million	R million	R million	R million	R million
As previously reported under SA GAAP	12 529	10 709	7 064	6 700	5 465	4 009
Adjustments for:						
Goodwill	28	2			28	2
Share of profit from associate	16	16			16	16
Operating leases	(33)	(33)	(6)	(6)	(27)	(27)
As reported under IFRS	12 540	10 694	7 058	6 694	5 482	4 000

TRANSITION TO IFRS — RECONCILIATION OF CHANGES IN SHAREHOLDERS EQUITY

	Other reserves				Distributable Reserve				Total R million
	Share capital	Translation reserve	Contingency reserve	Unrealised surplus	Share-based payment reserve	Retained earnings	Fair value adjustment reserve	Minority shareholders interest	
	R million	R million	R million	R million	R million	R million	R million	R million	
1 January 2004									
As previously reported under SA GAAP	1 130	(67)	577	454	—	1 862	—	53	4 009
Reclassifications				(454)			454		—
Adjustments for:									
Goodwill						2			2
Share-based payments					3	(3)			—
Translation reserve		67				(67)			—
Share of profit of associate						16			16
Operating leases						(27)			(27)
As reported under IFRS	1 130	—	577	—	3	1 783	454	53	4 000
31 December 2004									
As previously reported under SA GAAP	1 171	(115)	686	939	—	2 724	—	60	5 465
Reclassifications				(939)			939		—
Adjustments for:									
Goodwill						28			28
Share-based payments					11	(11)			—
Translation reserve		65				(65)			—
Share of profit of associate						16			16
Operating leases						(27)			(27)
As reported under IFRS	1 171	(50)	686	—	11	2 665	939	60	5 482

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and vehicles R million	Total R million
7. PROPERTY AND EQUIPMENT				
GROUP				
At 1 January 2004				
Cost or valuation	17	81	66	164
Accumulated depreciation	—	(52)	(42)	(94)
Net book amount	17	29	24	70
Year ended 31 December 2004				
Opening net book amount	17	29	24	70
Exchange differences due to translation	(1)	—	—	(1)
Additions	—	12	9	21
Disposals	(6)	(1)	(3)	(10)
Depreciation charge	—	(16)	(9)	(25)
Closing net book amount	10	24	21	55
At 31 December 2004				
Cost or valuation	10	84	46	140
Accumulated depreciation	—	(60)	(25)	(85)
Net book amount	10	24	21	55
Year ended 31 December 2005				
Opening net book amount	10	24	21	55
Acquisition of subsidiaries	—	—	1	1
Revaluation surplus	2	—	—	2
Additions	1	16	4	21
Disposals	—	—	—	—
Depreciation charge	—	(15)	(7)	(22)
Closing net book amount	13	25	19	57
At 31 December 2005				
Cost or valuation	13	97	52	162
Accumulated depreciation	—	(72)	(33)	(105)
Net book amount	13	25	19	57

The group's owner-occupied properties consist of a capitalised lease asset in London.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Owner-occupied properties R million	Computer equipment R million	Furniture, equipment and vehicles R million	Total R million
COMPANY				
At 1 January 2004				
Cost or valuation	—	72	55	127
Accumulated depreciation	—	(46)	(36)	(82)
Net book amount	—	26	19	45
Year ended 31 December 2004				
Opening net book amount	—	26	19	45
Additions	—	12	4	16
Disposals	—	—	(1)	(1)
Depreciation charge	—	(15)	(7)	(22)
Closing net book amount	—	23	15	38
At 31 December 2004				
Cost or valuation	—	81	36	117
Accumulated depreciation	—	(58)	(21)	(79)
Net book amount	—	23	15	38
Year ended 31 December 2005				
Opening net book amount	—	23	15	38
Revaluation surplus	—	—	—	—
Additions	—	15	3	18
Disposals	—	—	(1)	(1)
Depreciation charge	—	(14)	(5)	(19)
Closing net book amount	—	24	12	36
At 31 December 2005				
Cost or valuation	—	91	39	130
Accumulated depreciation	—	(67)	(27)	(94)
Net book amount	—	24	12	36

Depreciation expense has been included in Expenses for marketing and administration in the income statement (refer note 26).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
8. GOODWILL				
At the beginning of the year				
Cost	91	111	4	4
Translation difference	(2)	(1)	—	—
Impairment	(2)	—	—	—
Net book amount	87	110	4	4
At the beginning of the year				
Opening net book amount	87	110	4	4
Acquisition of subsidiaries	11	—	—	—
Adjustments to goodwill	(13)	(1)	—	—
Exchange difference due to translation	(1)	(1)	—	—
Goodwill realised	—	(19)	—	—
Impairment charge — through income	(4)	(2)	(4)	—
At the end of the year	80	87	—	4
At the end of the year				
Cost	89	91	4	4
Translation difference	(3)	(2)	—	—
Impairment	(6)	(2)	(4)	—
Net book amount	80	87	—	4

(a) Impairment tests of goodwill

Goodwill is allocated to the group's cash-generating units (CGU's) identified according to country of operation with further allocation to business entity, but is not allocated to a specific business segment. A summary of the geographical segment of the goodwill allocation is presented below.

	2005	2004
Southern Africa	44	37
Europe & UK	36	50
	80	87

When testing for impairment, the recoverable amount of a CGU is determined based on value-in-use calculations. These calculations are profit projections based on financial budgets approved by the board.

The impairment charge arose due to the full impairment of goodwill in the non-operational companies in the Namibian CGU following a decision taken to centralise insurance activities in the main operating company in Namibia, as well as the impairment of goodwill in other smaller non-operational CGU's in Southern Africa that ceased all business activities during the year.

	Company 2005 R million	Company 2004 R million
9. INVESTMENT IN SUBSIDIARIES		
At the beginning of the year	1 697	1 521
Additional investment	73	206
Disposal of investment	(67)	—
Provision for impairment	—	(30)
Unlisted shares at cost price less amounts written off	1 703	1 697

Details of investments are set out in note 42.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
10. INVESTMENTS IN ASSOCIATES				
At the beginning of the year	230	167	164	111
Acquisitions	—	62	—	25
Transfer from unlisted investments	—	3	—	—
Share of results after tax	117	37	98	59
Share of results before tax	163	83	136	84
Share of tax	(46)	(28)	(38)	(25)
Impairment of goodwill	—	(18)	—	—
Dividends received from associated companies	(94)	(29)	(90)	(27)
Disposals	(14)	(8)	(6)	(4)
Exchange difference due to translation	—	(2)	—	—
At the end of year	239	230	166	164
Fair value	339	287	237	209

Details of investments are set out in note 42.

Unrecognised losses in Bluesure Ltd amounted to R22 million (2004: R14 million) for the year.

Investments in associates at 31 December 2005 include goodwill of R4,5 million (2004: R4,5 million).

The aggregate assets, liabilities, revenues, profits/losses of the principal associates, all of which are unlisted, were as follows

	Assets R million	Liabilities R million	Revenues R million	Profit/(Loss) R million
Credit Guarantee Insurance Corporation of Africa Ltd	925	508	476	258
Pamodzi Brokers Holdings Ltd	83	63	119	12
NICO Holdings Ltd	621	537	229	20
Multinet Makelaars (Pty) Ltd	57	11	61	17
Lion of Africa Holdings Company (Pty) Ltd	656	536	622	22
Other	252	202	189	(22)
Total	2 594	1 857	1 696	307
	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million

11. FINANCIAL ASSETS AND LIABILITIES AT FAIR VALUE THROUGH INCOME

The group's financial assets and liabilities are summarised below by measurement category.

Equity securities:

— quoted	4 285	3 004	3 918	2 875
— unquoted	758	570	462	523
	5 043	3 574	4 380	3 398

Debt securities — fixed interest rate:

— government and other bonds	755	1 537	149	631
— unquoted	76	76	—	—
	831	1 613	149	631

Derivative

— Exchange traded futures	3	—	3	—
— Over the counter	—	(4)	—	(4)
	3	(4)	3	(4)

Net financial assets at fair value through income

5 877 5 183 4 532 4 025

The details of investments are set out on page 105.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

			Fair value asset R million	Fair value liability R million
<i>Non-hedge derivative</i>				
The group utilises various derivative instruments as part of the overall investment strategy.				
GROUP AND COMPANY				
2005				
Equity/index contracts				
Exchange traded futures			3	—
			3	—
2004				
Equity/index contracts				
Over the counter			—	4
			—	4
	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
12. REINSURANCE ASSETS				
Reinsurers' share of insurance liabilities	2 194	1 833	1 683	1 470
Impairment provision	—	—	—	—
Total assets arising from reinsurance contracts	2 194	1 833	1 683	1 470
Amounts due from reinsurers in respect of claims already paid by the group on the contracts that are reinsured, are included in loans and other receivables (note 13)				
13. LOANS AND RECEIVABLES				
Receivables arising from insurance and reinsurance contracts:				
— due from contract holders	887	369	575	355
— due from reinsurers	188	257	88	102
— less provision for impairment of receivables from reinsurers	(57)	(117)	(17)	(26)
Other loans and receivables:				
— other receivables	231	538	139	297
— loans to associated companies	32	18	14	—
— loans to subsidiaries	—	—	365	261
— less provision for impairment of other loans and receivables	—	—	(38)	—
Total loans and receivables including insurance receivables	1 281	1 065	1 126	989
The estimated fair values of loans and receivables are the discounted amount of the estimated future cash flows expected to be received.				
There is no concentration of credit risk with respect to loans and receivables, as the group has a large number of locally and internationally dispersed debtors.				
The group has made provision for the potential non-recovery of certain reinsurance debtors. The provision has been included in the income statement.				
14. CASH AND CASH EQUIVALENTS				
Cash at bank and in hand	4 927	3 927	2 818	2 576
	4 927	3 927	2 818	2 576

Included in cash at bank is R17 million (2004: R6 million) which relates to funds released by Syndicate 623 in respect of open years and held by Lloyd's deposit trust deed that is used to support the company's underwriting. There are restrictions on the company's ability to withdraw this amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Number of shares (thousands)	Stated capital R million
15. SHARE CAPITAL		
GROUP AND COMPANY		
At 1 January 2004	113 620	1 130
Proceeds from shares issued	1 585	41
At 31 December 2004	115 205	1 171
Proceeds from shares issued	1 043	27
Return of excess capital	—	(1 156)
At 31 December 2005	116 248	42

The total authorised number of ordinary shares is 150 million shares of no par value. All issued shares are fully paid. Subject to the restrictions imposed by the Companies Act, the authorised and unissued shares are under the control of the directors until the forthcoming annual general meeting. Until the next annual general meeting the directors are authorised to issue ten million of the unissued shares for any purpose and in accordance with such rules and conditions as they see fit.

Share options

Share options are granted to executive directors, senior and middle management. The exercise price of the granted option is equal to the market price of the shares on the date of the grant. Options are conditional on the employee remaining in service. The vesting period is five years and lapse after the sixth year. Options can be exercised from the third year (provided the employee is in service) in lots of 40% after three years, another 30% after the fourth year with the balance from the fifth year, fully exercised before the sixth year. The group has no legal or constructive obligation to repurchase or settle the options in cash.

Santam has two independent share incentive schemes, namely an option scheme and a deferred payout/delivery scheme. The incentive scheme is managed in a trust and the trustees will on instruction from Santam's board of directors, offer shares to Santam employees based on participating employees' constant good performance and potential.

Share option scheme	Date Awarded	Latest irreversible date	Exercise Price*	Number of shares
2004	15 March 2000	15 March 2005	R 16.80	133 550
The following share options — which lapse after six years, when they become irreversible — were awarded and are outstanding in terms of the Santam Limited Share Incentive Scheme:	1 April 2000	1 April 2005	R 16.10	6 000
	20 February 2001	20 February 2006	R 22.50	442 760
	14 January 2002	14 January 2007	R 26.35	37 000
	20 February 2002	20 February 2007	R 27.15	296 250
	1 September 2002	1 September 2007	R 22.50	645 800
	26 January 2003	26 January 2008	R 23.00	40 000
	25 February 2003	25 February 2008	R 21.00	705 800
	31 March 2004	31 March 2009	R 35.15	957 500
	1 June 2004	1 June 2009	R 36.70	60 000
				3 324 660
	Movements during the period:	Average price		
	As at 1 January 2004	R 21.95		3 148 500
	New options awarded	R 34.22		1 041 000
	Awarded options lapsed due to resignations	R 23.54		(331 200)
	Options exercised	R 19.79		(533 640)
	As at 31 December 2004	R 26.30		3 324 660

* In April 2005 R1.15 billion of surplus capital (R10 per share) was returned to shareholders. The exercise price of all options granted before that date was reduced with R10.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Share option scheme	Date Awarded	Latest irreversible date	Exercise Price*	Number of shares
2005	15 March 2000	15 March 2005	R 16.80	13 950
	20 February 2001	20 February 2006	R 22.50	195 180
	14 January 2002	14 January 2007	R 26.35	37 000
	20 February 2002	20 February 2007	R 27.15	184 290
	1 September 2002	1 September 2007	R 22.50	645 800
	26 January 2003	26 January 2008	R 23.00	40 000
	25 February 2003	25 February 2008	R 21.00	656 300
	31 March 2004	31 March 2009	R 35.15	898 000
	1 June 2004	1 June 2009	R 36.70	60 000
	10 November 2005	10 November 2010	R 71.30	1 278 500
				4 009 020
Movements during the period:		Average price		
As at 1 January 2005		R 26.30		3 324 660
New options awarded		R 71.30		1 278 500
Options transferred from Deferred payout scheme		R 27.15		21 200
Awarded options lapsed due to resignations		R 27.01		(72 500)
Options exercised		R 22.96		(542 840)
As at 31 December 2005		R 41.10		4 009 020
Deferred payout/delivery scheme	Date Awarded	Latest irreversible date	Exercise Price*	Number of shares
2004	15 March 2000	15 March 2005	R 16.80	231 350
	20 February 2001	20 February 2006	R 22.50	256 800
	14 January 2002	14 January 2007	R 26.35	37 000
	20 February 2002	20 February 2007	R 27.15	263 750
	25 February 2003	25 February 2008	R 21.00	388 700
	1 July 2003	1 July 2008	R 22.62	25 000
	14 July 2003	14 July 2008	R 25.20	284 100
	31 March 2004	31 March 2009	R 35.15	483 500
				1 970 200
Movements during the period:		Average price		
As at 1 January 2004		R 19.48		2 755 550
New shares awarded		R 34.22		491 500
Awarded shares lapsed due to resignations		R 23.54		(225 700)
Scheme shares released		R 13.96		(1 051 150)
As at 31 December 2004		R 25.72		1 970 200

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Deferred payout/delivery scheme	Date Awarded	Latest irreversible date	Exercise Price*	Number of shares
2005	15 March 2000	15 March 2005	R 16.80	9 000
	20 February 2001	20 February 2006	R 22.50	114 400
	14 January 2002	14 January 2007	R 26.35	22 200
	20 February 2002	20 February 2007	R 27.15	153 630
	25 February 2003	25 February 2008	R 21.00	388 700
	1 July 2003	1 July 2008	R 22.62	25 000
	14 July 2003	14 July 2008	R 25.20	284 100
	31 March 2004	31 March 2009	R 35.15	445 500
				1 442 530
	Movements during the period:		Average price	
	As at 1 January 2005		R 25.72	1 970 200
	Shares transferred to Share option scheme		R 27.15	(21 200)
	Awarded shares lapsed due to resignations		R 35.15	(6 000)
	Scheme shares released		R 21.72	(500 470)
	As at 31 December 2005		R 26.26	1 442 530

* In April 2005 R1.15 billion of surplus capital (R10 per share) was returned to shareholders. The exercise price of all options granted before that date was reduced with R10.

The share options exercised are not issued and payment for them is not required, unless the option holder is in the group's service on the date on which the shares become irreversible. The number of unissued share options in the share incentive scheme for employees under the control of the directors, is 4 571 233.

The fair value of options granted since 7 November 2002 calculated using a model based on a hybrid of the European and American binomial method, was R54 million (2004: R34 million). The significant inputs into the model is the share price on grant date, share option exercise price, vesting period, standard deviation of expected share price returns on date of grant and expected staff turnover time. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share price over the last six years. The valuation model is used for share options under the normal share option scheme as well as the deferred payment scheme. share-option costs of R10 million (2004: R8 million) has been included in the income statement.

	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
16. OTHER RESERVES				
Translation reserve	(54)	(50)	—	—
Contingency reserve	817	686	795	686
Total other reserves	763	636	795	686
Retained earnings	4 922	3 615	4 618	3 233
Exchange differences resulting from the translation of the financial statements of foreign operations with a presentation currency different to that of the group are taken to the translation reserve on consolidation to form part of equity. On disposal of such a foreign operation the translation differences are recognised in the income statement as part of the profit or loss on disposal.				
<i>(a) Movements in the translation reserve were as follows:</i>				
At the beginning of the year	(50)	—		
Currency translation differences:				
— group	(4)	(50)		
At the end of the year	(54)	(50)		
<i>(b) Movements in the contingency reserve were as follows:</i>				
At the beginning of the year	686	577	686	577
Transfer from retained earnings	131	109	109	109
At the end of the year	817	686	795	686

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
17. CELL OWNERS' INTEREST				
At the beginning of the year	47	—		
Acquired through acquisition of subsidiary	133	—		
Net increase in cell owners' interest	88	46		
Reclassification of funds contributed by cell owners from Trade and other payables	—	1		
At the end of the year	268	47		

18. DEFERRED INCOME TAX

Deferred income taxes are calculated in full on temporary differences under the liability method using a principal tax rate of 29% (2004: 30%) in South Africa and the official tax rates in the foreign subsidiaries where applicable.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax relate to the same fiscal authority. The amounts are as follows:

Deferred tax assets:	22	10	—	—
Deferred tax liabilities:	256	148	227	127
Total net deferred income tax account	234	138	227	127
The gross movement on the deferred income tax account is as follows:				
At beginning of year	138	109	127	105
Acquisition of subsidiaries	1	—	—	—
Income statement charge	95	29	100	22
At end of year	234	138	227	127

The movement in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

	Tax losses carried forward R million
(a) Deferred tax assets	
GROUP	
At beginning of year 2004	(14)
Charged to the income statement	4
At end of year 2004	(10)
Credited to the income statement	(12)
At end of year 2005	(22)

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The group has unrecognised tax losses of R1.2 million (2004: R9.8 million) to carry forward against taxable income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Unrealised appreciation of investments R million	Provisions and accruals R million	Other differences R million	Total R million
<i>(b) Deferred tax liabilities</i>				
GROUP				
At beginning of year 2004	134	(13)	2	123
Charged/(credited) to the income statement	95	(70)	—	25
At end of year 2004	229	(83)	2	148
Charged/(credited) to the income statement	112	(5)	—	107
Acquisition of subsidiary	—	1	—	1
At end of year 2005	341	(87)	2	256
COMPANY				
At beginning of year 2004	120	(13)	(2)	105
Charged/(credited) to the income statement	101	(82)	3	22
At end of year 2004	221	(95)	1	127
Charged/(credited) to the income statement	107	(4)	(3)	100
At end of year 2005	328	(99)	(2)	227
			Group 2005 R million	Group 2004 R million

19. INVESTMENT CONTRACT LIABILITIES

Investment contracts at fair value through income (unit-linked)

250

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During 2005, the group acquired 66.7% of the Nova Group, which included the company Nova Life Partners Ltd. Financial liabilities arising from investment contracts at fair value through income, resulted from this acquisition. All financial liabilities at fair value through income are designated by the group to be in this measurement category. The maturity value of these financial liabilities is determined by the fair value of the linked assets, at maturity date.

	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
20. INSURANCE LIABILITIES AND REINSURANCE ASSETS				
Gross				
Long-term insurance contracts				
— claims reported and loss adjustment expenses	4	—	—	—
— claims incurred but not reported	9	—	—	—
Short-term insurance contracts				
— claims reported and loss adjustment expenses	3 183	2 436	2 342	1 848
— claims incurred but not reported	1 036	738	919	683
— unearned premiums	2 375	1 909	937	913
Total insurance liabilities — gross	6 607	5 083	4 198	3 444
Recoverable from reinsurers				
Long-term insurance contracts				
— claims reported and loss adjustment expenses	2	—	—	—
— claims incurred but not reported	2	—	—	—
Short-term insurance contracts				
— claims reported and loss adjustment expenses	1 276	1 055	1 024	863
— claims incurred but not reported	331	141	288	128
— unearned premiums	583	637	371	479
Total reinsurers' share of insurance liabilities	2 194	1 833	1 683	1 470

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

			Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
20. INSURANCE LIABILITIES AND REINSURANCE ASSETS (continued)						
Net						
Long-term insurance contracts						
— claims reported and loss adjustment expenses			2	—	—	—
— claims incurred but not reported			7	—	—	—
Short-term insurance contracts						
— claims reported and loss adjustment expenses			1 907	1 381	1 318	985
— claims incurred but not reported			705	597	631	555
— unearned premiums			1 792	1 272	566	434
Total insurance liabilities — net			4 413	3 250	2 515	1 974
	Gross	2005 Reinsurance	Net	Gross	2004 Reinsurance	Net
20.1 Movements in insurance liabilities and reinsurance assets						
(a) Claims and loss adjustment expenses						
GROUP						
Notified claims	2 436	(1 055)	1 381	2 303	(1 104)	1 199
Incurred but not reported	738	(141)	597	686	(179)	507
Total at beginning of year	3 174	(1 196)	1 978	2 989	(1 283)	1 706
Cash paid for claims settled in the year	(5 955)	770	(5 185)	(4 797)	733	(4 064)
Increase in liabilities						
— arising from current year claims	6 905	(1 114)	5 791	5 021	(651)	4 370
— arising from acquisition of subsidiary	117	(73)	44	—	—	—
Net exchange differences	(9)	2	(7)	(39)	5	(34)
Total at end of year	4 232	(1 611)	2 621	3 174	(1 196)	1 978
Notified claims	3 187	(1 278)	1 909	2 436	(1 055)	1 381
Incurred but not reported	1 045	(333)	712	738	(141)	597
Total at end of year	4 232	(1 611)	2 621	3 174	(1 196)	1 978
COMPANY						
Year ended 31 December						
Notified claims	1 848	(863)	985	1 206	(396)	810
Incurred but not reported	683	(128)	555	590	(119)	471
Total at beginning of year	2 531	(991)	1 540	1 796	(515)	1 281
Cash paid for claims settled in the year	(5 193)	521	(4 672)	(4 099)	490	(3 609)
Increase in liabilities						
— arising from current year claims	5 905	(824)	5 081	4 364	(521)	3 843
— arising from portfolio transfer	18	(18)	—	470	(445)	25
Total at end of year	3 261	(1 312)	1 949	2 531	(991)	1 540
Notified claims	2 342	(1 024)	1 318	1 848	(863)	985
Incurred but not reported	919	(288)	631	683	(128)	555
Total at end of the year	3 261	(1 312)	1 949	2 531	(991)	1 540

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Gross	2005 Reinsurance	Net	Gross	2004 Reinsurance	Net
<i>(b) Provision for unearned premiums</i>						
GROUP						
Year ended 31 December						
Unearned premium provision	1 909	(637)	1 272	2 036	(865)	1 171
At beginning of year	1 909	(637)	1 272	2 036	(865)	1 171
Movement for the period	376	82	458	(127)	228	101
Acquisition of subsidiary	90	(28)	62	—	—	—
Total at end of year	2 375	(583)	1 792	1 909	(637)	1 272
COMPANY						
Year ended 31 December						
Unearned premium provision	913	(479)	434	840	(416)	424
At beginning of year	913	(479)	434	840	(416)	424
Movement for the period	24	108	132	73	(63)	10
Total at end of year	937	(371)	566	913	(479)	434

20.2 Short-term non-life insurance contracts — assumptions, change in assumptions and sensitivity.

(i) Process used to decide on assumptions

Santam uses a stochastic chain-ladder method in order to estimate the ultimate cost of claims. This process is performed separately for each line of business.

The basic technique involves the analysis of historical claims development factors and the selection of estimated development factors based on this historical pattern. The selected development factors are then applied to cumulative claims data for each accident year that is not yet fully developed to produce an estimated ultimate claims cost for each accident year.

A stochastic process is applied to the choice of development factors for each accident year in accordance with standard statistical practices. Numerous simulations are performed in order to obtain a distribution of the ultimate claims cost.

Santam holds reserves that are at least sufficient at the 75th percentile of the ultimate claims cost distribution.

(ii) Change in assumptions

There has been no change in assumptions over the past year, but the method of calculation has been refined to a per class basis with effect from 2005.

(iii) Sensitivity analysis

The inherent nature of the stochastic process described above is to produce a distribution of ultimate claims costs. By holding reserves that are at least sufficient at the 75th percentile of this distribution, Santam ensures that its reserves are adequate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

iv) Claims development tables

The presentation of the claims development tables for the Santam Group, is based on the actual date of the event that caused the claim (accident year basis). The claims development tables, represent the development of actual claims paid.

Reporting year	Total R million	2005 R million	2004 R million	Claims paid in respect of 2003 R million	2002 R million	2001 R million
GROUP						
Conventional short-term insurance claims — gross						
Actual claims costs:						
2005	5 955	4 711	966	107	106	65
2004	4 797	—	3 813	823	99	62
2003	5 076	—	—	3 648	1 083	345
2002	4 832	—	—	—	4 105	727
2001	4 169	—	—	—	—	4 169
Cumulative payments to date	24 829	4 711	4 779	4 578	5 393	5 368
Conventional short-term insurance claims — net						
Actual claims costs:						
2005	5 185	4 223	820	33	79	30
2004	4 064	—	3 311	656	62	35
2003	4 194	—	—	3 120	892	182
2002	3 754	—	—	—	3 336	418
2001	3 374	—	—	—	—	3 374
Cumulative payments to date	20 571	4 223	4 131	3 809	4 369	4 039
COMPANY						
Conventional short-term insurance claims — gross						
Actual claims costs:						
2005	5 193	4 092	864	113	75	49
2004	4 099	—	3 236	688	112	63
2003	4 326	—	—	3 159	943	224
2002	4 230	—	—	—	3 687	543
2001	3 457	—	—	—	—	3 457
Cumulative payments to date	21 305	4 092	4 100	3 960	4 817	4 336
Conventional short-term insurance claims — net						
Actual claims costs:						
2005	4 672	3 798	741	45	54	34
2004	3 609	—	2 930	583	66	30
2003	3 794	—	—	2 837	797	160
2002	3 542	—	—	—	3 186	356
2001	3 107	—	—	—	—	3 107
Cumulative payments to date	18 724	3 798	3 671	3 465	4 103	3 687

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Leave pay R million	Contributions to pensioners medical aid R million	Pension fun surplus allocation provision R million	Litigation exposures R million	Other R million	Total R million
21. PROVISION FOR LIABILITIES AND CHARGES						
GROUP						
At 1 January 2004	43	3	—	—	—	46
Charged to income statement:						
— additional provisions	2	—	—	—	—	2
— unused amounts reversed	—	(3)	—	—	—	(3)
Reclassification from trade and other payables	—	—	40	28	—	68
Year ended 31 December 2004	45	—	40	28	—	113
Charged to income statement:						
— additional provisions	1	—	10	9	—	20
— unused amounts reversed	—	—	—	—	—	—
Reclassification from trade and other payables	—	—	—	—	11	11
Acquisition of subsidiary	2	—	—	—	—	2
Used during the year	(1)	—	—	—	—	(1)
Year ended 31 December 2005	47	—	50	37	11	145
COMPANY						
At 1 January 2004	40	3	—	—	—	43
Charged to income statement:						
— additional provisions	1	—	—	—	—	1
— unused amounts reversed	—	(3)	—	—	—	(3)
Reclassification from trade and other payables	—	—	40	28	—	68
Year ended 31 December 2004	41	—	40	28	—	109
Charged to income statement:						
— additional provisions	—	—	10	9	—	19
— unused amounts reversed	—	—	—	—	—	—
Reclassification from trade and other payables	—	—	—	—	11	11
Year ended 31 December 2005	41	—	50	37	11	139
			Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
22. TRADE AND OTHER PAYABLES						
Amounts due to subsidiaries			—	—	1 001	952
Trade payables and accrued expenses			1 102	753	917	493
Amounts due to reinsurers			243	414	191	407
Total			1 345	1 167	2 109	1 852

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
23. NET INSURANCE PREMIUM REVENUE				
Gross earned premium				
— gross written premium	11 355	9 735	9 380	8 369
— change in unearned premium provision	371	(102)	22	73
Premium revenue arising from insurance contracts issued	10 984	9 837	9 358	8 296
Reinsurance earned premium				
— reinsurance premium	2 011	2 012	1 457	1 540
— change in unearned premium provision	(102)	(180)	(109)	63
Premium revenue ceded to reinsurers on insurance contracts issued	2 113	2 192	1 566	1 477
Net insurance premium revenue	8 871	7 645	7 792	6 819
24. INVESTMENT INCOME				
Dividend income	185	164	342	174
Quoted	176	109	168	104
Unquoted	9	55	174	70
Interest income	293	310	215	225
Quoted	124	94	78	53
Unquoted	169	216	137	172
Foreign exchange differences	4	5	(1)	7
	482	479	556	406
		Gross R million	Reinsurance R million	Net R million
25. INSURANCE BENEFITS AND CLAIMS				
2005				
GROUP				
Claims paid	5 955	(770)	5 185	
Movement in the expected cost of outstanding claims	950	(342)	608	
Total claims and loss adjustment expense	6 905	(1 112)	5 793	
COMPANY				
Claims paid	5 193	(521)	4 672	
Movement in the expected cost of outstanding claims	712	(303)	409	
Total claims and loss adjustment expense	5 905	(824)	5 081	
2004				
GROUP				
Claims paid	4 797	(733)	4 064	
Movement in the expected cost of outstanding claims	218	80	298	
Total claims and loss adjustment expense	5 015	(653)	4 362	
COMPANY				
Claims paid	4 099	(490)	3 609	
Movement in the expected cost of outstanding claims	265	(31)	234	
Total claims and loss adjustment expense	4 364	(521)	3 843	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
26. OTHER EXPENSES BY DESTINATION				
<i>(a) Expenses for the acquisition of insurance contracts</i>				
Costs incurred for the acquisition of insurance contracts expensed in the year	1 586	1 429	1 427	1 189
Total expenses for the acquisition of insurance contracts	1 586	1 429	1 427	1 189
<i>(b) Marketing and administrative expenses</i>				
Marketing and administrative expenses	1 099	1 191	982	1 113
Depreciation	22	25	19	22
Total marketing and administrative expenses	1 121	1 216	1 001	1 135
27. EXPENSES BY NATURE				
Auditors' remuneration	7	5	4	3
Audit fees				
Current year	5	4	3	2
Audit-related services	1	1	—	1
Tax compliance services	1	—	1	—
Depreciation, amortisation and impairment charges	26	45	23	22
Employee benefit expense (note 28)	779	760	652	657
Directors remuneration	6	11	6	11
Goodwill impairment	4	2	4	—
Operating lease rentals	163	162	153	152
Offices	50	54	42	47
Computer equipment	96	92	95	91
Furniture and mechanical equipment	6	5	5	4
Motor vehicles	11	11	11	10
Other expenses	1 768	1 703	1 628	1 518
Total expenses	2 753	2 688	2 470	2 363
28. EMPLOYEE BENEFIT EXPENSE				
Wages, salaries and bonus	666	650	545	554
Social security costs	76	73	71	69
Share options granted to directors and employees	10	8	10	8
Pension costs — defined contribution plans	27	29	26	26
	779	760	652	657
Directors' emoluments	Salary R '000	Performance Bonus R '000	Other benefits R '000	Total R '000
2005				
Executive Directors				
Paid by the company				
SC Gilbert	1 937	2 078	308	4 323
MJ Reyneke	1 217	1 011	190	2 418
	3 154	3 089*	498	6 741

*Bonus in respect of 2005 paid in 2006

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Directors' fees R '000
Non-executive directors	
Paid by the company	
JJ Geldenhuys	253
JG le Roux	242
NM Magau	209
AR Martin	242
EA Moolla	101
JE Newbury	242
P de V Rademeyer**	231
GE Rudman	275
DK Smith	330
J van Zyl**	220
BP Vundla	209
	2 554
TOTAL	9 295

	Salary R '000	Performance Bonus R '000	Other benefits R '000	Total R '000
2004				
Executive Directors				
Paid by the company				
SC Gilbert	1 776	3 689	302	5 767
MJ Reyneke	1 074	1 913	182	3 169
	2 850	5 602***	484	8 936

	Directors' fees R '000
Non-executive directors	
Paid by the company	
JJ Geldenhuys	270
JG le Roux	180
NM Magau	150
AR Martin	190
JE Newbury	180
P de V Rademeyer**	220
GE Rudman	260
DK Smith	300
J van Zyl**	170
BP Vundla	150
	2 070
TOTAL	11 006

** Fees were paid to the holding company Sanlam Ltd

*** Bonus in respect of 2004 paid in 2005

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
29. FINANCE COSTS				
Interest expense:				
— interest provided on pension fund liability	6	6	6	—
— banks and other	2	—	—	—
— revenue authorities	4	8	1	1
	12	14	7	1
30. INCOME TAX EXPENSE				
South African normal taxation				
Current year	367	494	301	445
Current	337	475	295	430
Other taxes	30	19	6	15
Prior year	2	61	—	41
Foreign taxation				
Current year	55	22	—	—
Prior year	1	(2)	—	—
Income taxation for the year	425	575	301	486
Deferred taxation	95	29	100	22
Current year	99	88	104	81
Prior year	(4)	(59)	(4)	(59)
Total taxation as per the Income Statement	520	604	401	508
Reconciliation of taxation rate(%)				
Normal South African taxation rate	29.0	30.0	29.0	30.0
Adjusted for:				
Disallowable expenses	0.3	0.5	0.3	0.6
Foreign tax differential	—	0.1	—	—
Exempt income	(1.3)	(2.5)	(4.4)	(2.4)
Investment results	(5.4)	(4.0)	(5.6)	(3.6)
Income from associates	(1.5)	(0.7)	(1.3)	(0.8)
Goodwill	—	0.6	—	0.1
Previous years' (over)/under provision	0.4	(0.2)	—	(0.8)
Other permanent differences	(0.1)	0.8	—	—
Other taxes	1.0	0.8	(0.1)	0.6
Net reduction	(6.6)	(4.6)	(11.1)	(6.3)
Effective rate(%)	22.4	25.4	17.9	23.7

During the year the statutory tax rate in South Africa was changed to 29% (2004: 30%).

	Group 2005	Group 2004
31. EARNINGS PER SHARE		
Basic earnings per share		
Basic earnings per share is calculated by dividing the net profit attributable to equity holders of the company by the weighted average number of ordinary shares in issue during the year.		
<i>Basic earnings per share</i>		
Profit attributable to the Company's equity holders (R million)	1 778	1 754
Weighted average number of ordinary shares in issue (millions)	115.82	114.63
Earnings per share (cents)	1 535	1 531

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Diluted earnings per share

For the diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all dilutive potential ordinary shares. In the diluted earnings per share calculation for the share options granted to employees, a calculation is done to determine the number of shares that could have been acquired at market price (determined as the average annual share price of the company's shares) based on the monetary value of the subscription rights attached to outstanding share options. This calculation serves to determine the "unpurchased" shares to be added to the ordinary shares outstanding for the purpose of computing the dilution; for the share options calculation no adjustment is made to net profit.

Diluted earnings per share

Profit attributable to the Company's equity holders (R million)

Weighted average number of ordinary shares in issue (millions)

Adjusted for share-options

Weighted average number of ordinary shares for diluted earnings per share

Diluted basic earnings per share (cents)

Headline earnings per share

For the calculation of headline earnings per share, the profit attributable to equity holders of Company is adjusted with the exclusion of impairment of intangible assets and goodwill, divided by the normal weighted average number of ordinary shares in issue.

Headline earnings per share

Profit attributable to the Company's equity holders (R million)

Impairment of goodwill in subsidiaries

Impairment of goodwill in associates

Loss on sale of subsidiaries and unlisted investments

Headline earnings (R million)

Weighted average number of ordinary shares in issue (millions)

Headline earnings per share (cents)

Diluted headline earnings per share

Headline earnings (R million)

Weighted average number of ordinary shares for diluted earnings per share (millions)

Diluted headline earnings per share (cents)

32. DIVIDENDS PER SHARE

Interim of 108 cents per share (2004: 95c)

Proposed final of 227 cents per share (2004:195c)

	Group 2005	Group 2004
Profit attributable to the Company's equity holders (R million)	1 778	1 754
Weighted average number of ordinary shares in issue (millions)	115.82	114.63
Adjusted for share-options	2.20	1.57
Weighted average number of ordinary shares for diluted earnings per share	118.02	116.20
Diluted basic earnings per share (cents)	1 506	1 509
Profit attributable to the Company's equity holders (R million)	1 778	1 754
Impairment of goodwill in subsidiaries	4	2
Impairment of goodwill in associates	—	18
Loss on sale of subsidiaries and unlisted investments	2	—
Headline earnings (R million)	1 784	1 774
Weighted average number of ordinary shares in issue (millions)	115.82	114.63
Headline earnings per share (cents)	1 540	1 548
Headline earnings (R million)	1 784	1 774
Weighted average number of ordinary shares for diluted earnings per share (millions)	118.02	116.20
Diluted headline earnings per share (cents)	1 512	1 527
Interim of 108 cents per share (2004: 95c)	125	109
Proposed final of 227 cents per share (2004:195c)	264	225
	389	334

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
33. CASH GENERATED FROM OPERATIONS				
Profit before tax	2 321	2 382	2 235	2 143
Adjustments for:				
Non-cash items	21	27	(12)	(1)
Loss on disposal of fixed assets	2	1	—	1
Loss on disposal of associated companies	3	—	—	—
Loss/(profit) on disposal of subsidiary	2	—	(37)	—
Share option costs	10	8	10	8
Impairment of associated company	—	18	—	—
Impairment of goodwill	4	2	4	—
Depreciation	22	25	19	22
Income from associated companies	(22)	(27)	(8)	(32)
Investment income, realised and fair value gains	(1 487)	(1 277)	(1 539)	(1 136)
Finance costs	12	14	7	1
Changes in working capital (excluding the effects of acquisitions and disposals of subsidiaries)	1 020	490	653	395
Reinsurance assets	(258)	310	(213)	(539)
Deferred acquisition costs	(34)	8	(23)	(41)
Loans and receivables including insurance receivables	(143)	76	(148)	(87)
Insurance liabilities	1 316	58	753	808
Deferred reinsurance acquisition revenue	(6)	(16)	(9)	35
Provisions for other liabilities and charges	32	53	30	52
Trade and other payables	113	1	263	167
Investment income received in cash	490	472	561	406
Dividends received				
Quoted	176	109	168	104
Unquoted	9	55	174	70
Interest received	293	310	215	225
Foreign exchange differences	4	5	(1)	7
Provision for investment income	8	(7)	5	—
Cash generated from operations	2 377	2 108	1 905	1 808
34. INCOME TAX PAID				
Amounts charged in the income statement	(520)	(604)	(401)	(508)
Movement in deferred taxation	96	29	100	22
Movement in taxation liability	(354)	214	(372)	243
	(778)	(361)	(673)	(243)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Group 2005 R million	Group 2004 R million	Company 2005 R million	Company 2004 R million
35. BUSINESS COMBINATIONS				
During the course of the year, the group acquired a new subsidiary, Nova Group Holding (Pty) Ltd.				
Details of the assets and liabilities acquired and goodwill arising are as follows:				
Deferred income tax	1			
Property and equipment	1			
Investments	234			
Reinsurance assets	102			
Loans and receivables	74			
Cash & cash equivalents	281			
Insurance liabilities	(207)			
Trade and other payables	(73)			
Life Contracts	(232)			
Goodwill	(1)			
Cell owners' interest	(132)			
Purchase consideration paid	48	—	48	206
On 1 January 2005 Stalker Hutchinson & Associates (Pty) Ltd acquired a further 25% share in PI Acceptances (Pty) Ltd:				
Net asset value acquired	3			
Goodwill	10			
Purchase consideration paid	13	—		
Total purchase consideration paid	61	—	48	206
In 2004, Santam Ltd increased its funding of Santam International by R206 million by taking up additional shares. Its shareholding remained 100%.				
36. DIVIDENDS PAID				
Amounts paid for the year to company's shareholders	(350)	(278)	(350)	(278)
Amounts paid for the year to minority interests	(10)	(18)		
	(360)	(296)	(350)	(278)
37. CONTINGENCIES				
The group, like all other insurers, is subject to litigation in the normal course of its business. The group does not believe that such litigation will have a material effect on its profit or loss and financial condition. However, experience has shown that it is more difficult to assess the ultimate outcome of such litigation.				

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

38. COMMITMENTS

Operating lease commitments — where group company is the lessee

The group leases various offices under non-cancellable operating lease agreements. The leases have varying terms escalation clauses and renewal rights. The group also leases vehicles under cancellable operating lease agreements. The group is required to give a six-month notice for the termination of these agreements. The lease expenditure charged to the income statement during the year is disclosed in note 27. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	Up to 1 year	1 to 5 years	R million Total
2005			
Motor vehicles	11	11	22
Computer equipment	3	2	5
Offices	38	33	71
	52	46	98
2004			
Motor vehicles	12	10	22
Computer equipment	4	3	7
Offices	43	84	127
	59	97	156
2005			
IT Service agreements	48	86	134
2004			
IT Service agreements	77	—	77

39. RELATED PARTY TRANSACTIONS

The group is controlled by Sanlam Limited (incorporated in South Africa), which owns 52.85% of the company's shares. The remaining 47.15% of the shares are widely held.

Refer to Analysis of Shareholders on page 106 for detail.

The following transactions were carried out with related parties:

	2005 R million	2004 R million
(a) Sales of insurance contracts and other services		
Sales of insurance contracts:		
— Sanlam Ltd and related parties	2	1
Sale of services		
— associates	9	12
Services are usually negotiated with related parties on a arms length basis. Insurance contracts are sold on the basis of the prices in force with non-related parties.		
(b) Purchases of services		
Purchases of services:		
— associates (for administration services)	169	180
— Sanlam Ltd and related parties (for investment management services)	5	5
Services are negotiated with related parties on a arms length basis.		
(c) Key management compensation		
Salaries and other short-term employee benefits	123	111
Termination benefits	3	2
Share-based payments	5	4
	131	117

Short-term insurance contracts held by directors of Santam Limited with the company are on an arms length basis and are not material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	2005 R million	2004 R million
<i>(d) Year end balances arising from sales/purchases of services</i>		
Receivables from related parties		
— associates	32	17
Payable to related parties		
— associates	8	10
<i>e) Loans to related parties</i>		
Loans to associates:		
At beginning of year	18	22
Loans advanced during the year	21	—
Loan repayments received	(7)	(5)
Interest charged	—	1
At end of year	32	18

40. EVENTS AFTER BALANCE SHEET DATE

There have been no material changes in the affairs or financial position of the company and its subsidiaries since the balance sheet date.

41. SOLVENCY MARGIN

The group is subject to insurance solvency regulations in all territories in which it issues insurance contracts, and it has complied with all the local solvency regulations. There are no contingencies associated with the group's compliance with these regulations. The group solvency margin is calculated as the ratio of capital and reserves to net premium.

	Group 2005	Group 2004
Group capital and reserves attributable to equity holders (R million)	5 727	5 422
Net premium (R million)	9 344	7 723
Group solvency margin (%)	61.3%	70.2%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

42. ANALYSIS OF INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

	Nature of Business	Country of Incorporation	Issued Capital R	Proportion held by the company 2005	Proportion held by the company 2004	Book value of Shares R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
INVESTMENT IN SUBSIDIARIES								
UNLISTED COMPANIES								
Direct:								
Aegis Insurance Company Ltd	Insurance	RSA	179 195 142	100.0%	100.0%	262	265	
Gilts Broker Solutions Ltd	Retail	RSA	2	100.0%	100.0%	—		
Guardian National Insurance Company Ltd	Insurance	RSA	178 603 840	100.0%	100.0%	624	644	
Nova Group Holdings Ltd	Holding co.	RSA	1 140 000	66.6%	0.0%	73		28
Santam International Ltd	Holding co.	Guernsey	692 505 672	100.0%	100.0%	738		23
Santam Namibia Ltd	Insurance	Namibia	8 307 147	60.0%	60.0%	5	14	
Sentinel Insurance Corporation Ltd	Investments	RSA	1 000 000	100.0%	100.0%	1	3	
Swanvest 120 (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	—		84
						1 703	926	135
Indirect:								
Africa Group Financial Services (Pty) Ltd	Holding co.	RSA	100	100.0%	100.0%	—		
Africa Group Insurance Brokers (Pty) Ltd	Underwriting	RSA	100	100.0%	100.0%	—		
Agri Risk Specialists (Pty) Ltd	Underwriting	RSA	6 875 100	100.0%	100.0%	35	7	
Associated Marine Underwriters (Pty) Ltd	Underwriting	RSA	873 577	100.0%	100.0%	5		9
Capricorn Investment Company (Pty) Ltd	Insurance	Namibia	4 000 000	60.0%	60.0%	4		
Construction and Engineering Underwriters (Pty) Ltd	Underwriting	RSA	25 000	100.0%	100.0%	1		2
Guardian South Africa Ltd	Investments	RSA	6 471 517	100.0%	100.0%	114	62	
Hegel Street 26 Investments Ltd	Insurance	Namibia	4 000 000	60.0%	60.0%	9		
Insurance Broker Resource Centre (Pty) Ltd	Underwriting	RSA	85 000	100.0%	100.0%	—		
Legal Exchange Corporation (Pty) Ltd	Underwriting	RSA	30 000	70.0%	0.0%	1		
Namibian National Insurance Company (Pty) Ltd	Insurance	Namibia	3 100 000	100.0%	100.0%	3	6	
Nova Life Partners Ltd	Insurance	RSA	21 000 000	66.6%	0.0%	22		
Nova Risk Partners Ltd	Insurance	RSA	227 027	66.6%	0.0%	23		
Novation RSA (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	—		
SA Aviation Insurance Managers (Pty) Ltd	Underwriting	RSA	100	51.0%	51.0%	—		
Santam Corporate UK Ltd	Insurance	United Kingdom	100 007 949	100.0%	100.0%	79		
Santam Europe Ltd	Insurance	Ireland	206 258 746	100.0%	100.0%	195		
Santam Risk Finance Ltd	Insurance	RSA	55 000 084	66.6%	100.0%	102		181
Santam UK Ltd	Holding co.	United Kingdom	100 006 574	100.0%	100.0%	79		
Schools for Africa Underwriting Managers (Pty) Ltd	Underwriting	RSA	1 000	100.0%	100.0%	—		
SRU Properties (Pty) Ltd	Underwriting	RSA	5 000	52.0%	52.0%	—		
Stalker Hutchinson & Associates (Pty) Ltd	Underwriting	RSA	7 914 393	83.5%	83.5%	23		
Thatch Risk Acceptances (Pty) Ltd	Underwriting	RSA	50 000	51.0%	51.0%	—		
Webstat Bureau Services (Pty) Ltd	Fin. Services	RSA	100	100.0%	100.0%	—		
Westminster Motor Insurance Ltd	Insurance	United Kingdom	276 170 000	100.0%	100.0%	241		
Wheatfields Investments no 136 (Pty) Ltd	Underwriting	RSA	120	100.0%	100.0%	—		
						936	75	192
TOTAL INVESTMENTS IN SUBSIDIARIES						2 639	1 001	327

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

	Nature of Business	Country of Incorporation	Issued Capital R	Proportion held by the company 2005	Proportion held by the company 2004	Book value of Shares R million	Owing by Santam Ltd R million	Owing to Santam Ltd R million
INVESTMENTS IN ASSOCIATE COMPANIES								
UNLISTED COMPANIES								
Direct:								
Credit Guarantee Insurance Corporation of Africa Ltd	Insurance	RSA	2 649 000	33.6%	32.6%	125		
Isure Services (Pty) Ltd	IT Services	RSA	100	25.0%	—	—		
Lion of Africa Holdings Company (Pty) Ltd	Insurance	RSA	74 874 852	35.0%	50.0%	23		14
NICO Holdings Ltd	Insurance	Malawi	55 281	25.1%	25.1%	18		
						166	—	14
Indirect:								
344 Independence Avenue (Pty) Ltd	Property	Namibia	1 300 000	0.0%	27.3%	—		
Admiral Professional Underwriting Agency (Pty) Ltd	Underwriting	RSA	1 963 668	28.9%	28.9%	9		
Bluesure Ltd	Underwriting	United Kingdom	183 340 550	47.3%	47.3%	—		
Credit Underwriting Agency (Pty) Ltd	Underwriting	RSA	1 000 000	0.0%	29.0%	—		
General Credit Protection (Pty) Ltd	Underwriting	RSA	400	0.0%	25.0%	—		
Integrisure Brokers (Pty) Ltd	Broker	RSA	100	25.0%	25.0%	—		
Multinet Makelaars (Pty) Ltd	Broker	RSA	27 586 579	25.0%	25.0%	19		
Pamodzi Brokers Holdings Ltd	Broker	RSA	8 953 000	43.5%	43.5%	33		
Samber Trading no.4 (Pty) Ltd	Property	RSA	120	0.0%	22.5%	—		
Thebe Risk Services Holdings (Pty) Ltd	Broker	RSA	1 000	49.99%	49.99%	7		
Topexec Management Bureau (Pty) Ltd	Man Bureau	RSA	3 961 950	25.00%	25.00%	5		
						73	—	—
TOTAL INVESTMENTS IN ASSOCIATE COMPANIES						239	—	14

INVESTMENTS

Financial assets at fair value through income	Number of shares	Group market value/ Director's valuation R million
Debt securities — at fair value through income		
Quoted		
RSA		179
Other		576
		755
Unquoted		
Other		76
Total debt securities at fair value through income		831
Equity securities — at fair value through income		
Each of the following investments has an individual value of more than 1% of the total investment portfolio.		
Details of the investments below 1%, summarised as Other, are open to inspection at the registered office of the company.		
Quoted		
ABSA Group Limited	1 315 031	133
African Bank Investments Limited	3 716 151	91
Anglo American PLC	1 307 157	279
Barloworld Limited	839 229	93
BHP Billiton PLC	780 660	81
FirstRand Limited	9 554 992	176
Gold Fields Limited	556 123	62
Impala Platinum Holdings Limited	92 633	86
Liberty International PLC	955 217	103
MTN Group Limited	1 423 423	88
Old Mutual PLC	4 140 518	74
Pick 'n Pay Holdings Limited	4 978 741	64
Remgro Limited	1 249 219	152
Richemont Securities AG	3 603 544	99
SABMiller PLC	877 451	103
Sasol Limited	936 084	212
Standard Bank Group Limited	3 788 252	287
Telkom SA Limited	803 221	108
The Bidvest Group Limited	1 169 063	108
Other		1 625
		4 024
Unquoted		17
Redeemable Preference Shares		
Unquoted		
URD Beleggings (Edms) Limited — Sanlam Subsidiaries	273 828	273
Investec — AELPREF	77 000	77
Other	—	141
		491
Irredeemable Preference Shares		
Quoted		261
Unquoted		250
Total equity securities at fair value through income		5 043
Derivatives — at fair value through income		3
Total financial assets at fair value through income		5 877

ANALYSIS OF SHAREHOLDERS

	No. of Shareholders	% of Total	No. of Shares	% Interest		
Analysis of Shareholders						
1 – 100 shares	823	18.46	70 797	0.06		
101 – 1 000 shares	2 079	46.65	988 153	0.85		
1001 – 50 000 shares	1 423	31.93	10 880 608	9.36		
50 001 – 100 000 shares	62	1.39	4 482 903	3.86		
100 001 – 10 000 000 shares	69	1.55	38 386 339	33.02		
More than 10 000 000 shares	1	0.02	61 439 137	52.85		
	4 457	100.00	116 247 937	100.00		
Type of Shareholder						
Individuals	3 288	73.77	4 685 774	4.03		
Companies	299	6.70	88 045 345	75.74		
Growth funds / unit trusts	167	3.75	7 095 727	6.10		
Nominee companies or trusts	524	11.76	3 308 047	2.85		
Pension and retirement funds	179	4.02	13 113 044	11.28		
	4 457	100.00	116 247 937	100.00		
	Shareholders in SA		Shareholders other than in SA		Total Shareholders	
	Nominal Number	% Interest	Nominal Number	% Interest	Nominal Number	% Interest
Shareholder Spread						
Public Shareholders	4 316	44.92	126	100.00	4 442	46.97
Directors	13	0.18	—	—	13	0.18
Trustees of employees' share scheme	1	0.00	—	—	1	0.00
Holdings of 5% or more	1	54.90	—	—	1	52.85
Sanlam Limited	1	54.90	—	—	1	52.85
	4 331	100.00	126	100.00	4 457	100.00



“A vital force
is active in every
individual and leads
it towards its own
evolution.”

Maria Montessori





Rest insured