Reviewed Interim Report for the six months
ended 30 June 2006

’06 SANTAM Limited and its Subsidiaries

santam

Rest insured

Index

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

EXECUTIVE DIRECTORS
SC Gilbert (Chief executive), MJ Reyneke

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

Reviewed Interim Report

for the six months ended 30 June 2006

Highlights

- Return on shareholders' funds of 22%
- Growth in gross written premium of 17% in challenging market
- 9% increase in interim dividend
- R1 billion cash generated by operations

Consolidated balance sheets

	Notes	**Reviewed At 30 June 2006 R million**	Restated Reviewed At 30 June 2005 R million	Audited At 31 December 2005 R million
ASSETS				
Non–Current assets				
Property and equipment		**57**	51	57
Intangible assets		**107**	86	80
Deferred income tax		**35**	16	22
Investments in associates		**254**	228	239
Financial assets				
Equity securities:				
– at fair value through income	3	**5 139**	3 837	5 046
Debt securities:				
– at fair value through income	3	**1 329**	1 209	831
Current assets				
Reinsurance assets		**2 302**	1 704	2 194
Deferred acquisition costs		**203**	160	181
Loans and receivables including insurance receivables		**1 458**	1 125	1 281
Cash and cash equivalents		**4 564**	3 984	4 927
Total assets		**15 448**	12 400	14 858
EQUITY				
Capital and reserves attributable to the company's equity holders				
Share capital		**67**	37	42
Other reserves		**982**	731	763
Distributable reserves		**4 405**	4 045	4 922
		5 454	4 813	5 727
Minority interest		**110**	63	125
Total equity		**5 564**	4 876	5 852
LIABILITIES				
Non–Current liabilities				
Cell owners' interest		**286**	86	268
Deferred income tax		**224**	184	256
Financial liabilities				
Investment contracts		**250**	–	250
Current liabilities				
Insurance liabilities		**7 483**	5 549	6 607
Deferred reinsurance acquisition revenue		**68**	83	109
Provisions for other liabilities and charges		**150**	141	145
Trade and other payables		**1 348**	1 301	1 345
Current income tax liabilities		**75**	180	26
Total liabilities		**9 884**	7 524	9 006
Total shareholders' equity and liabilities		**15 448**	12 400	14 858

Consolidated income statements

	Notes	**Reviewed Six months ended 30 June 2006 R million**	Restated Reviewed Six months ended 30 June 2005 R million	% Change	Audited Year ended 31 December 2005 R million
Gross written premium		**5 879**	5 034	17	11 355
Less: reinsurance premium		**934**	779		2 011
Net premium		**4 945**	4 255	16	9 344
Less: change in unearned premium					
Gross amount		**57**	7		371
Reinsurers' share		**(9)**	203		102
Net insurance premium revenue		**4 897**	4 045	21	8 871
Investment income	4	**246**	269	(9)	482
Income from reinsurance contracts ceded		**190**	192		404
Net realised gains on financial assets		**682**	151		263
Net fair value (losses)/gains on assets at fair value through income		**(267)**	92		742
Net income		**5 748**	4 749	21	10 762
Insurance claims and loss adjustment expenses		**3 838**	2 980		6 905
Insurance claims and loss adjustment expenses recovered from reinsurers		**(328)**	(364)		(1 112)
Net insurance benefits and claims		**3 510**	2 616	34	5 793
Expenses for the acquisition of insurance contracts		**863**	749		1 586
Expenses for marketing and administration		**537**	496		1 121
Expenses for asset management services		**20**	16		42
Amortisation of intangible assets/ Goodwill impairment		**1**	–		4
Expenses		**4 931**	3 877	27	8 546
Results of operating activities		**817**	872		2 216
Finance costs		**(6)**	(14)		(12)
Share of profit of associates		**52**	44		117
Profit before tax		**863**	902	(4)	2 321
Income tax expense	5	**(281)**	(196)		(520)
Profit for the period		**582**	706	(17)	1 801
Attributable to:					
– equity holders of the company		**577**	694		1 778
– minority interest		**5**	12		23
		582	706		1 801
Earnings attributable to equity shareholders		**cents**	cents	% change	cents
Earnings per share	6				
Basic earnings per share		**493**	599	(18)	1 535
Diluted earnings per share		**483**	586	(18)	1 506
Weighted average number of shares - millions		**117.1**	115.8		115.8

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Consolidated statement of changes in equity

	Attributable to equity holders of the company			Minority interest	Total
	Share capital R million	Other reserves R million	Distributable reserves R million	R million	R million
Balance as at 1 January 2005	1 171	636	3 615	60	**5 482**
Share issue	27				**27**
Return of surplus 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**
Share issue	25				**25**
Retained income for the period			577	5	**582**
Transfer to reserves		70	(70)		**–**
Share-based payments			8		**8**
Currency translation differences		149			**149**
Dividends paid			(1 032)	(9)	**(1 041)**
Interest acquired from minorities				(11)	**(11)**
Balance as at 30 June 2006	**67**	**982**	**4 405**	**110**	**5 564**
Balance as at 1 January 2005	1 171	636	3 615	60	**5 482**
Share issue	22				**22**
Return of surplus capital	(1 156)				**(1 156)**
Retained income for the period			694	12	**706**
Transfer to reserves		41	(41)		**–**
Share-based payments			5		**5**
Currency translation differences		54			**54**
Dividends paid			(228)	(9)	**(237)**
Balance as at 30 June 2005	**37**	**731**	**4 045**	**63**	**4 876**

Consolidated cash flow statements

	Reviewed Six months ended 30 June 2006 R million	Restated Reviewed Six months ended 30 June 2005 R million	Audited Year ended 31 December 2005 R million
Cash generated from operations	**1 013**	1 359	2 377
Interest paid	**(6)**	(14)	(12)
Income tax paid	**(277)**	(367)	(778)
Net cash from operating activities	**730**	978	1 587
Cash flows from investing activities			
Cash (utilised)/generated in investment activities	**(205)**	364	578
Acquisition of subsidiary, net of cash acquired	**(30)**	–	(61)
Cash acquired through acquisition of subsidiary	**–**	–	281
Purchases of equipment	**(12)**	–	(21)
Proceeds from sale of equipment	**–**	3	2
Capital refund from associated companies	**1**	–	4
Proceeds from sale of associated companies	**23**	5	7
Proceeds from sale of subsidiary, net of cash sold	**1**	–	20
Acquisition of book of business	**(2)**	–	–
Net cash from investing activities	**(224)**	372	810
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	**25**	22	27
Return of surplus capital to shareholders	**–**	(1 156)	(1 156)
Dividends paid to company's shareholders	**(1 032)**	(228)	(350)
Dividends paid to minority interest	**(9)**	(9)	(10)
Increase in cell owners' interest	**19**	40	88
Net cash used in financing activities	**(997)**	(1 331)	(1 401)
Net (decrease)/increase in cash and cash equivalents	**(491)**	19	996
Cash and cash equivalents at beginning of period	**4 927**	3 927	3 927
Exchange gains on cash and cash equivalents	**128**	38	4
Cash and cash equivalents at end of period	**4 564**	3 984	4 927

Notes to the consolidated financial statements

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The consolidated condensed financial statements for the six months ended 30 June 2006 were prepared in accordance with International Financial Reporting Standards ("IFRS") IAS 34 - Interim Financial Reporting and in compliance with the Listing Requirements of the JSE Limited. The consolidated condensed interim financial statements do not include all of the information required by IFRS for full annual financial statements.

The principal policies used in the preparation of the reviewed results for the period ended 30 June 2006 are consistent with those applied in the annual financial statements for the year ended 31 December 2005 and for the results for the six months ended 30 June 2005 in terms of IFRS.

Restatement of comparative numbers

Comparatives for the six months ended 30 June 2005 have been amended with the accounting of cell activity and operating lease costs. These adjustments have been set out in detail in note 6 to the annual financial statements for the year ended 31 December 2005 and had no significant impact on the reported results.

2. SEGMENT REPORT

For the six months ended 30 June 2006	Insurance activities R million	Investment activities R million	Total R million
2.1 Business activity			
Gross written premium	5 879		**5 879**
Net written premium	4 945		**4 945**
Net earned premium	4 897		**4 897**
Claims incurred	3 510		**3 510**
Net commission	673		**673**
Management expenses	537		**537**
Underwriting result	177	–	**177**
Investment return on insurance funds	127		**127**
Net insurance result	304	–	**304**
Investment income net of management fee		508	**508**
Income from associates		52	**52**
Amortisation of intangible assets	(1)		**(1)**
Income before taxation	303	560	**863**
Total assets	8 727	6 721	**15 448**
Total liabilities	9 884	–	**9 884**

2. SEGMENT REPORT (continued)

For the six months ended 30 June 2006	Gross written premium R million	Underwriting result R million	Total assets R million	Total liabilities R million
2.2 Insurance class				
Accident and health	153	(5)	39	132
Alternative risk	585	(2)	301	1 445
Crop	96	46	22	27
Engineering	230	64	458	605
Guarantee	9	14	51	65
Liability	332	16	731	1 328
Miscellaneous	61	25	55	119
Motor	2 490	96	156	1 693
Property	1 789	(109)	702	2 038
Transportation	134	32	64	171
Unallocated	–	–	12 869	2 261
TOTAL	**5 879**	**177**	**15 448**	**9 884**
Comprising:				
Commercial insurance	3 076	212	2 249	5 767
Personal insurance	2 218	(33)	29	411
Alternative risk	585	(2)	301	1 445
Unallocated	–	–	12 869	2 261
TOTAL	**5 879**	**177**	**15 448**	**9 884**
2.3 Geographical				
Southern Africa	5 589	198	13 217	8 461
UK & Europe	290	(21)	2 231	1 423
TOTAL	**5 879**	**177**	**15 448**	**9 884**

For the six months ended 30 June 2005	Insurance activities R million	Investment activities R million	Total R million
2.1 Business activity			
Gross written premium	5 034		**5 034**
Net written premium	4 255		**4 255**
Net earned premium	4 045		**4 045**
Claims incurred	2 616		**2 616**
Net commission	557		**557**
Management expenses	496		**496**
Underwriting result	376	–	**376**
Investment return on insurance funds	120		**120**
Net insurance result	496	–	**496**
Investment income net of management fee		362	**362**
Income from associates		44	**44**
Income before taxation	496	406	**902**
Total assets	7 126	5 274	**12 400**
Total liabilities	7 524	–	**7 524**

2. SEGMENT REPORT (continued)

For the six months ended 30 June 2005

	Gross written premium R million	Underwriting result R million	Total assets R million	Total liabilities R million
2.2 Insurance class				
Accident and health	153	14	37	110
Alternative risk	264	5	134	868
Crop	87	27	50	60
Engineering	202	33	234	332
Guarantee	39	13	99	103
Liability	327	46	632	955
Miscellaneous	44	2	83	128
Motor	2 215	177	111	1 531
Property	1 564	26	434	1 396
Transportation	139	33	51	149
Unallocated	–	–	10 535	1 892
TOTAL	**5 034**	**376**	**12 400**	**7 524**
Comprising:				
Commercial insurance	2 823	304	1 720	4 324
Personal insurance	1 947	67	11	440
Alternative risk	264	5	134	868
Unallocated	–	–	10 535	1 892
TOTAL	**5 034**	**376**	**12 400**	**7 524**
2.3 Geographical				
Southern Africa	4 790	395	10 825	6 645
UK & Europe	244	(19)	1 575	879
TOTAL	**5 034**	**376**	**12 400**	**7 524**

For the year ended 31 December 2005

	Insurance activities R million	Investment activities R million	Total R million
2.1 Business activity			
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	1 012	1 309	**2 321**
Total assets	8 742	6 116	**14 858**
Total liabilities	8 987	19	**9 006**

2. SEGMENT REPORT (continued)

For the year ended 31 December 2005	Gross written premium R million	Underwriting result R million	Total assets R million	Total liabilities R million
2.1 Insurance class				
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	6 343	689	2 121	4 682
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**
2.2 Geographical				
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**

	Reviewed At 30 June 2006 R million	Restated Reviewed At 30 June 2005 R million	Audited At 31 December 2005 R million
3. FINANCIAL ASSETS			
The group's financial assets are summarised below by measurement category.			
Fair value through income	**6 468**	5 046	5 877
Loans and receivables	**1 458**	1 125	1 281
Total financial assets	**7 926**	6 171	7 158
Financial assets at fair value through income			
Equity securities:			
– quoted	**4 423**	3 312	4 285
– unquoted	**716**	525	758
	5 139	3 837	5 043
Debt securities – fixed interest rate:			
– government and other bonds	**1 017**	1 114	755
– unquoted	**312**	95	76
	1 329	1 209	831
Derivative			
- Exchange traded futures	**–**	–	3
Total financial assets at fair value through income	**6 468**	5 046	5 877
4. INVESTMENT INCOME			
Dividend income	**88**	97	185
Interest income	**141**	155	293
Foreign exchange differences	**17**	17	4
	246	269	482

	Reviewed Six months ended 30 June 2006 R million	Restated Reviewed Six months ended 30 June 2005 R million	Audited Year ended 31 December 2005 R million
5. INCOME TAX EXPENSE			
South African normal taxation			
Current year	**307**	151	367
Current	**194**	131	347
STC	**113**	20	20
Prior year	**–**	2	2
Foreign taxation			
Current year	**2**	16	55
Prior year	**–**	2	1
Income taxation for the year	**309**	171	425
Deferred taxation	**(28)**	25	95
Current year	**(28)**	29	99
Prior year	**–**	(4)	(4)
Total taxation as per the Income Statement	**281**	196	520
6. EARNINGS PER SHARE			
Basic earnings per share			
Profit attributable to the company's equity holders (R million)	**577**	694	1 778
Weighted average number of ordinary shares in issue (million)	**117.1**	115.8	115.8
Earnings per share (cents)	**493**	599	1 535
Diluted earnings per share			
Profit attributable to the company's equity holders (R million)	**577**	694	1 778
Weighted average number of ordinary shares in issue (million)	**117.1**	115.8	115.8
Adjusted for share-options	**2.3**	2.6	2.2
Weighted average number of ordinary shares for diluted earnings per share (million)	**119.4**	118.4	118.0
Diluted basic earnings per share (cents)	**483**	586	1 506
Headline earnings per share			
Profit attributable to the company's equity holders	**577**	694	1 778
Adjust for:			
Impairment of goodwill in subsidiaries	**–**	–	4
Loss on sale of subsidiaries and associates	**6**	–	2
Headline earnings (R million)	**583**	694	1 784
Weighted average number of ordinary shares in issue (million)	**117.1**	115.8	115.8
Headline earnings per share (cents)	**498**	599	1 540
Diluted headline earnings per share			
Headline earnings per share (cents)	**583**	694	1 784
Weighted average number of ordinary shares for diluted earnings per share (million)	**119.4**	118.4	118.0
Diluted headline earnings per share (cents)	**488**	586	1 512

COMMENTS

Santam's underwriting performance came under pressure during the first half of 2006 due to the continued softening of the insurance cycle as well as an escalation in the average claims cost. Despite this, the group generated an annualised return on weighted average shareholders' funds of 21.6% compared to 27.6% in June 2005. This was predominantly due to excellent investment return on the back of firmer equity markets during the period. Headline earnings of R583 million for the six months were 16% lower compared to the same period in 2005, equating to headline earnings per share of 498 cents against 599 cents in 2005.

Following on the growth momentum of 2005, Santam achieved a 17% increase in gross written premiums during the first six months of the year.

On the local front, growth was achieved across most classes of business, while at group level, growth in net written premium was 16% up. International premiums increased by 19%, with both Westminster Motor Insurance Association and Santam Europe achieving similar growth in GBP terms.

The short-term insurance environment in South Africa continued to normalise, with the company experiencing a sharp increase in claims in the personal and commercial lines of business, placing underwriting margins under pressure. The group's net claims ratio of 71.7% was 7% higher compared to the first half of 2005. Commercial property and personal line insurance classes were negatively affected by adverse weather conditions, floods in Namibia, theft and a high number of commercial and private property fire incidents. In addition, the profitability of the motor insurance class came under pressure due to increased motor vehicle accidents, higher repair costs particularly on imported vehicles, as well as increased cost due to car theft and hijackings. On the other hand, specialist underwriting classes experienced more favourable claims ratios. Steps are being implemented to stabilise underwriting margins and address unprofitable business. As part of Santam's ongoing assessment of insurance liabilities in terms of claims experience, the Incurred but not reported (IBNR) reserve was reduced by R45 million during the period. Continued initiatives to improve efficiencies, timing, and the increased level of activity contributed towards the reduction in the acquisition cost ratio from 26% to 24.7%.

During the first quarter of the year, Santam launched its new Multihome insurance product directed at insuring low-cost houses in previously disadvantaged communities. To date business volumes are still low with a favourable claims experience.

In line with the company's ongoing strategy of optimising the retention of more business at an acceptable risk profile, the level of reinsurance earned premium declined to 15.9% of gross earned premium compared to 19.5% for the equivalent period in 2005. If the impact of insurance cell business is excluded, the year-to-date ratio for 2006 decreased to 11.1% against 17.2% for 2005.

The underwriting performance of Westminster Motor Insurance Association was disappointing in the first half of 2006. The company incurred an underwriting loss due to increases in the actuarial estimates of a few large liability claims incurred in prior years. The company continued to experience increased competition in its market sector from new entrants, which put pricing under pressure and eroded margins. Santam Europe has increased its business activity, although volumes are still below expectations. A decision was taken to wind down the Bluesure joint venture and the business was absorbed by a strategic partner to improve utilisation of resources.

The combined effect of all insurance activities resulted in a net insurance margin of 6.2% compared to 12.2% in 2005.

Investment return on insurance funds exceeded those of the previous year by 6% due to a 10% higher average float level (funds generated by insurance activities). This was primarily attributable to a continued focus on cash and working capital management and the impact of the refinements made to the reinsurance programme. Although R1 billion of cash was generated from operations during the first six months of 2006, this was 25% less than 2005 due to the overall lower underwriting profitability to date.

Investment-related income, excluding the investment return on insurance funds was 40% higher in the first six months of 2006 compared to the equivalent period in 2005, despite Santam's R1 billion dividend payment in April 2006, which reduced its capital base. This performance was due to the stronger equity markets during the period under review. Earnings from associated companies were higher than the comparable period mainly due to the very good results of Credit Guarantee Insurance Corporation of Africa Limited and Lion of Africa Insurance Company Limited.

The high effective tax rate of 32.5% was due to secondary tax on companies (STC) of R95 million on the special dividend of 650 cents per share that was paid in April 2006.

The group's solvency level is currently a sound 54%, a reduction from 61% at the end of 2005, due to the R1 billion in dividends paid to shareholders earlier in the year. In line with this, the net asset value per share decreased from 4927 cents at the end of 2005 to 4645 cents at the end of the first six months of 2006.

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

PROSPECTS

It is anticipated that underwriting margins will continue to come under pressure due to the softer market and the further deterioration of claims. Recent floods in the southern and Eastern Cape will put further pressure on underwriting margins.

Santam will concentrate on growing its market share without compromising sustainable profitability. Growth will be slower for the remainder of the year as there will be increased focus on managing the profitability of certain lines of business.

International businesses will remain focused on achieving a balance between growth and profitability to ensure that operations return to profit. It is expected that Westminster Motor Insurance Association will return to positive underwriting margins, whilst Santam Europe should achieve break-even during the second half.

In line with market expectations, it is anticipated that higher interest rates during the remainder of the year will have a positive effect on cash-related investments, while equity markets will remain volatile in the short-term with an overall sideways movement.

DECLARATION OF DIVIDEND (NUMBER 104)

Notice is hereby given that the board has declared an interim dividend of 118 cents per share (2005: 108 cents). Shareholders are advised that the last day to trade "cum dividend" will be Friday, 15 September 2006. The shares will trade "ex dividend" from the commencement of business on Monday, 18 September 2006. The record date will be Friday, 22 September 2006, and the payment date will be Tuesday, 26 September 2006. Shareholders may not dematerialise or rematerialise their shares between Monday, 18 September 2006, and Friday, 22 September 2006, both dates inclusive.

REVIEW BY AUDITORS

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

On behalf of the board

DK Smith
Chairman

SC Gilbert
Chief Executive

23 August 2006