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***Santam Limited*** and its subsidiaries

**Audited Abridged Financial Report**  
for the year ended 31 December 2007

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## **NON-EXECUTIVE DIRECTORS**

BTPKM Gamedze, JG le Roux, H Lorgat, NM Magau, AR Martin, JP Möller,  
RK Morathi, P de V Rademeyer, JP Rowse, GE Rudman,  
DK Smith (Chairman), J van Zyl, BP Vundla

## **EXECUTIVE DIRECTORS**

IM Kirk (Chief Executive Officer),  
MJ Reyneke (Chief Financial Officer)

## **COMPANY SECRETARY**

Sana-Ullah Bray

## **SANTAM HEAD OFFICE AND REGISTERED ADDRESS**

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

**Registration number** 1918/001680/06

**ISIN** ZAE000093779

**JSE share code:** SNT

**NSX share code:** SNM

## **TRANSFER SECRETARIES**

Computershare Investor Services 2004 (Pty) Ltd,  
70 Marshall Street, Johannesburg 2001  
PO Box 61051, Marshalltown, 2107,  
Tel: 011 370 5000, Fax: 011 688 7721,  
[www.computershare.com](http://www.computershare.com)

## **SPONSOR**

Investec Securities Limited

## HIGHLIGHTS

- Core SA underwriting business performing well
- Strong cash flows generated
- Special dividend of 2 200 cents per share paid in December
- Capital restructuring completed
- BBBEE transaction progressing as planned

## Consolidated balance sheets

	Notes	Audited At 31 Dec 07 R million	Audited At 31 Dec 06 R million
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment		38	59
Intangible assets		135	108
Deferred income tax		40	27
Investments in associates		175	215
Financial assets – at fair value through income			
Equity securities	3	4 454	5 435
Debt securities	3	2 901	2 106
<b>Current assets</b>			
Reinsurance assets		2 026	2 080
Deferred acquisition costs		239	211
Loans and receivables including insurance receivables	3	1 947	1 394
Income tax assets		27	39
Cash and cash equivalents		3 445	5 142
<b>Non-current assets classified as held for sale</b>		<b>2 060</b>	<b>–</b>
<b>Total assets</b>		<b>17 487</b>	<b>16 816</b>
<b>EQUITY</b>			
<b>Capital and reserves attributable to the company's equity holders</b>			
Share capital		105	71
Treasury shares	5	(726)	–
Other reserves		1 147	1 119
Distributable reserves		3 448	5 437
Amounts recognised directly in equity relating to non-current assets classified as held for sale		71	–
		4 045	6 627
<b>Minority interest</b>		<b>133</b>	<b>123</b>
<b>Total equity</b>		<b>4 178</b>	<b>6 750</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Deferred income tax		91	297
Financial liabilities – at fair value through income			
Debt securities	6	908	–
Investment contracts		525	276
Derivative	3	47	–
Financial liabilities – at amortised cost			
Cell-owners interest		336	329
<b>Current liabilities</b>			
Insurance liabilities		7 630	7 694
Deferred reinsurance acquisition revenue		99	74
Provisions for other liabilities and charges		87	148
Trade and other payables		1 492	1 213
Current income tax liabilities		488	35
<b>Liabilities directly associated with non-current assets classified as     held for sale</b>		<b>1 606</b>	<b>–</b>
<b>Total liabilities</b>		<b>13 309</b>	<b>10 066</b>
<b>Total shareholders' equity and liabilities</b>		<b>17 487</b>	<b>16 816</b>

*In the 2007 balance sheet the European insurance operations are presented in terms of IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.*

## Consolidated income statements

	Notes	Audited Year ended 31 Dec 07 R million	Audited Year ended 31 Dec 06 R million	Change %
<b>CONTINUING OPERATIONS</b>				
Gross written premium		13 173	12 115	9%
Less: reinsurance premium		2 254	2 011	
<b>Net premium</b>		<b>10 919</b>	<b>10 104</b>	<b>8%</b>
Less: change in unearned premium				
Gross amount		330	390	
Reinsurers' share		(127)	62	
<b>Net insurance premium revenue</b>		<b>10 716</b>	<b>9 652</b>	<b>11%</b>
Investment income	7	666	508	31%
Income from reinsurance contracts ceded		306	342	
Net gains on financial assets and liabilities at fair value through income		454	1 205	(62%)
<b>Net income</b>		<b>12 142</b>	<b>11 707</b>	<b>4%</b>
Insurance claims and loss adjustment expenses		8 552	7 619	
Insurance claims and loss adjustment expenses recovered from reinsurers		(1 250)	(999)	
<b>Net insurance benefits and claims</b>		<b>7 302</b>	<b>6 620</b>	<b>10%</b>
Expenses for the acquisition of insurance contracts		1 794	1 701	
Expenses for marketing and administration		1 262	1 046	
Expenses for asset management services rendered		27	46	
Amortisation of intangible assets		2	2	
<b>Expenses</b>		<b>10 387</b>	<b>9 415</b>	<b>10%</b>
<b>Results of operating activities</b>		<b>1 755</b>	<b>2 292</b>	<b>(23%)</b>
Finance costs		(45)	(7)	
Share of profit of associates		76	105	
<b>Profit before tax</b>		<b>1 786</b>	<b>2 390</b>	<b>(25%)</b>
Income tax expense	8	(542)	(593)	
<b>Profit for the year from continuing operations</b>		<b>1 244</b>	<b>1 797</b>	<b>(31%)</b>
<b>DISCONTINUED OPERATIONS</b>				
(Loss)/profit for the year from discontinued operations	4	(168)	70	(338%)
<b>Profit for the year</b>		<b>1 076</b>	<b>1 867</b>	<b>(42%)</b>
<b>Attributable to:</b>				
– equity holders of the company		1 050	1 844	(43%)
– minority interest		26	23	
		<b>1 076</b>	<b>1 867</b>	
<b>Earnings attributable to equity shareholders</b>				
<b>Earnings per share (cents)</b>	11			
Basic earnings per share		924	1 574	(41%)
Diluted earnings per share		914	1 553	(41%)
Headline earnings per share		906	1 555	(42%)
Diluted headline earnings per share		897	1 535	(42%)
<b>Weighted average number of shares – millions</b>		<b>113.67</b>	<b>117.13</b>	
<b>Weighted average number of ordinary shares for diluted earnings per share – millions</b>		<b>114.81</b>	<b>118.71</b>	
<b>Dividend per share (cents)</b>		<b>410</b>	<b>380</b>	
<b>Special dividend per share (cents)</b>		<b>2 200</b>	<b>–</b>	

## Consolidated statement of changes in equity

	Attributable to equity holders of the company					Minority interest	Total
	Share capital R million	Treasury shares R million	Other reserves R million	Distributable reserves R million	Amounts recognised directly in equity relating to non-current assets held for sale R million	R million	R million
<b>Balance as at 1 January 2006</b>	42	—	763	4 922	—	125	<b>5 852</b>
Share issue	29	—	—	—	—	—	<b>29</b>
Profit for the year	—	—	—	1 844	—	23	<b>1 867</b>
Transfer to reserves	—	—	177	(177)	—	—	<b>—</b>
Share-based payments	—	—	—	13	—	—	<b>13</b>
Currency translation differences	—	—	179	—	—	—	<b>179</b>
Dividends paid	—	—	—	(1 165)	—	(20)	<b>(1 185)</b>
Additional interest acquired by minorities	—	—	—	—	—	(5)	<b>(5)</b>
<b>Balance as at 31 December 2006</b>	71	—	1 119	5 437	—	123	<b>6 750</b>
Share issue	34	—	—	—	—	—	<b>34</b>
Net purchase of treasury shares	—	(726)	—	—	—	—	<b>(726)</b>
Profit for the year	—	—	—	1 050	—	26	<b>1 076</b>
Transfer to reserves	—	—	93	(93)	—	—	<b>—</b>
Share-based payments	—	—	—	14	—	—	<b>14</b>
Currency translation differences	—	—	6	—	—	—	<b>6</b>
Dividends paid	—	—	—	(2 960)	—	(17)	<b>(2 977)</b>
Interest acquired by minorities	—	—	—	—	—	1	<b>1</b>
Amounts recognised directly in equity relating to non-current assets classified as held for sale	—	—	(71)	—	71	—	<b>—</b>
<b>Balance as at 31 December 2007</b>	<b>105</b>	<b>(726)</b>	<b>1 147</b>	<b>3 448</b>	<b>71</b>	<b>133</b>	<b>4 178</b>

## Consolidated cash flow statements

	Notes	<b>Audited Year ended 31 Dec 07 R million</b>	<b>Audited Year ended 31 Dec 06 R million</b>
Cash generated from operations		<b>2 139</b>	2 203
Interest paid		<b>(45)</b>	(7)
Income tax paid		<b>(288)</b>	(606)
<b>Net cash from operating activities</b>		<b>1 806</b>	1 590
<b>Cash flows from investing activities</b>			
Cash utilised in investment activities		<b>(197)</b>	(390)
Acquisition of subsidiary, net of cash acquired	9	<b>(61)</b>	(30)
Proceeds from sale of subsidiary, net of cash sold		<b>–</b>	183
Cash acquired/(sold) through the acquisition/sale of subsidiary		<b>52</b>	(188)
Purchases of equipment		<b>(32)</b>	(18)
Proceeds from sale of equipment		<b>3</b>	1
Capital refund from associated companies		<b>–</b>	1
Proceeds from sale of associated companies		<b>21</b>	23
Acquisition of book of business		<b>(2)</b>	(2)
<b>Net cash from investing activities</b>		<b>(216)</b>	(420)
<b>Cash flows from financing activities</b>			
Proceeds from issuance of ordinary shares		<b>34</b>	29
Purchase of treasury shares		<b>(726)</b>	–
Increase in debt securities		<b>964</b>	–
Increase in investment contract liabilities		<b>230</b>	–
Dividends paid to company's shareholders		<b>(2 960)</b>	(1 165)
Dividends paid to minorities		<b>(17)</b>	(20)
Increase in cell-owners' interest		<b>8</b>	61
<b>Net cash used in financing activities</b>		<b>(2 467)</b>	(1 095)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(877)</b>	75
Cash and cash equivalents at beginning of year		<b>5 142</b>	4 927
Exchange (losses)/gains on cash and cash equivalents		<b>(8)</b>	140
<b>Cash and cash equivalents at end of year</b>		<b>4 257</b>	5 142
Non-current assets classified as held for sale		<b>(812)</b>	–
<b>Cash and cash equivalents at end of year – Continuing operations</b>		<b>3 445</b>	5 142
<b>Cash flows relating to discontinued operations</b>			
Included in the above are the following cash flows from discontinued operations.			
Operating cash flows		<b>233</b>	197
Investing cash flows		<b>(25)</b>	(15)
Financing cash flows		<b>(197)</b>	–
<b>Net increase in cash and cash equivalents</b>		<b>11</b>	182
Cash and cash equivalents at beginning of year		<b>808</b>	515
Translation (losses)/gains on cash and cash equivalents		<b>(7)</b>	111
<b>Cash and cash equivalents at end of year</b>		<b>812</b>	808

## Notes to the abridged financial report

### 1. Basis of presentation and accounting policies

The consolidated financial statements for the year ended 31 December 2007 are prepared in accordance with International Financial Reporting Standards (IFRS), IAS34 – *Interim Financial Reporting* and in compliance with the Listing Requirements of the JSE Limited. These are the group's abridged consolidated financial statements for the period for which annual financial statements are prepared in terms of IFRS. The abridged consolidated financial statements do not include all of the information required by IFRS for full annual financial statements.

The principal accounting policies used in preparing the audited results for the year ended 31 December 2007 are consistent with those applied in the annual financial statements for the year ended 31 December 2006 in terms of IFRS.

In the 2007 balance sheet and income statement, the European insurance operations are presented in terms of IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*. The comparatives for 2006 have been restated on the income statement.

### 2. Segment report

To ensure more meaningful disclosure, only the continuing activities are reported on a segmented basis below.

#### 2.1 For the year ended 31 December 2007

Business activity	Insurance activities R million	Investment activities R million	Total R million
Gross written premium	13 173		13 173
Net written premium	10 919		10 919
Net earned premium	10 716		10 716
Claims incurred	7 302		7 302
Net commission	1 488		1 488
Management expenses	1 262		1 262
<b>Underwriting result</b>	664	–	664
Investment return on insurance funds	319		319
<b>Net insurance result</b>	983	–	983
Investment income net of management fee and finance costs		729	729
Income from associates		76	76
Amortisation of intangible asset	(2)	–	(2)
Income before taxation	981	805	1 786
<b>Total assets</b>	7 897	7 530	15 427
<b>Total liabilities</b>	10 724	979	11 703

Insurance class	Gross written premium R million	Underwriting result R million	Total assets R million	Total liabilities R million
Accident and health	331	12	33	138
Alternative risk	1 780	50	456	1 880
Crop	436	(87)	114	254
Engineering	508	201	64	240
Guarantee	20	30	22	37
Liability	1 068	301	891	1 994
Miscellaneous	27	(1)	9	26
Motor	4 941	164	60	1 135
Property	3 719	(10)	542	1 769
Transportation	343	4	74	258
Unallocated	–	–	13 162	3 972
<b>Total</b>	<b>13 173</b>	<b>664</b>	<b>15 427</b>	<b>11 703</b>
<b>Comprising:</b>				
Commercial insurance	6 600	558	1 798	4 978
Personal insurance	4 793	56	11	873
Alternative risk	1 780	50	456	1 880
Unallocated	–	–	13 162	3 972
<b>Total</b>	<b>13 173</b>	<b>664</b>	<b>15 427</b>	<b>11 703</b>



**2.2 For the year ended 31 December 2006**

<b>Business activity</b>	<b>Insurance activities R million</b>	<b>Investment activities R million</b>	<b>Total R million</b>
Gross written premium	12 115		<b>12 115</b>
Net written premium	10 104		<b>10 104</b>
Net earned premium	9 652		<b>9 652</b>
Claims incurred	6 620		<b>6 620</b>
Net commission	1 359		<b>1 359</b>
Management expenses	1 046		<b>1 046</b>
<b>Underwriting result</b>	627	–	<b>627</b>
Investment return on insurance funds	250		<b>250</b>
<b>Net insurance result</b>	877	–	<b>877</b>
Investment income net of management fee and finance costs	–	1 410	<b>1 410</b>
Income from associates	–	105	<b>105</b>
Amortisation of intangible asset	(2)	–	<b>(2)</b>
<b>Income before taxation</b>	875	1 515	<b>2 390</b>
<b>Total assets</b>	7 975	7 046	<b>15 021</b>
<b>Total liabilities</b>	8 995	22	<b>9 017</b>

<b>Insurance class</b>	<b>Gross written premium R million</b>	<b>Underwriting result R million</b>	<b>Total assets R million</b>	<b>Total liabilities R million</b>
Accident and health	316	20	31	123
Alternative risk	1 416	18	244	1 591
Crop	360	40	98	194
Engineering	476	77	325	538
Guarantee	26	32	48	64
Liability	809	58	700	1 494
Miscellaneous	124	65	40	107
Motor	4 574	248	64	956
Property	3 724	5	555	1 525
Transportation	290	64	46	178
Unallocated	–	–	12 870	2 247
<b>Total</b>	<b>12 115</b>	<b>627</b>	<b>15 021</b>	<b>9 017</b>
<b>Comprising:</b>				
Commercial insurance	6 194	552	1 880	4 427
Personal insurance	4 505	57	27	752
Alternative risk	1 416	18	244	1 591
Unallocated	–	–	12 870	2 247
<b>Total</b>	<b>12 115</b>	<b>627</b>	<b>15 021</b>	<b>9 017</b>

	Audited At 31 Dec 07 R million	Audited At 31 Dec 06 R million
<b>3. Financial assets at fair value through income</b>		
The group's financial assets are summarised below by measurement category.		
Fair value through income	<b>7 308</b>	7 541
Loans and receivables	<b>1 947</b>	1 394
<b>Total financial assets</b>	<b>9 255</b>	8 935
<b>Financial assets at fair value through income</b>		
Equity securities		
– quoted	<b>4 434</b>	5 415
– unquoted	<b>20</b>	20
	<b>4 454</b>	5 435
Derivative		
– Interest rate swaps	<b>(47)</b>	–
Debt securities		
– quoted		
government and other bonds	<b>1 322</b>	1 339
money market instruments (long-term instruments)	<b>851</b>	–
– unquoted		
bonds	<b>1</b>	1
redeemable preference shares	<b>727</b>	766
	<b>2 901</b>	2 106
<b>Financial assets at fair value through income</b>	<b>7 308</b>	7 541

**4. Non-current assets held for sale and discontinued operations**

The assets and liabilities relating to Santam Europe Limited and Westminster Motor Insurance Association have been presented as “held for sale” following approval by the Santam board to dispose of both these operations within the next 12 months.

**Analysis of the result of discontinued operations**

Gross written premium	<b>932</b>	622
Net premium	<b>872</b>	580
Net insurance premium revenue	<b>641</b>	551
Net investment and reinsurance income	<b>82</b>	92
Net insurance benefits and claims	<b>725</b>	417
Expenses	<b>188</b>	134
(Loss)/profit before tax	<b>(190)</b>	92
Income tax	<b>22</b>	(22)
(Loss)/profit for the year from discontinued operations	<b>(168)</b>	70

**5. Treasury shares**

A subsidiary in the group acquired 6 972 940 Santam shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. A further 174 346 shares were bought in the market at an average price of R110 per share. 60 118 shares were reissued in terms of the executive share purchase plan at R110 per share. The shares are held as treasury shares and are measured at cost. The company has the right to reissue these shares at a later date subject to approval by the JSE and the Regulator.

	<b>Audited At 31 Dec 07 R million</b>	<b>Audited At 31 Dec 06 R million</b>
<b>6. Debt securities – at fair value through income</b>		
Debentures issued	955	–
Fair value adjustment	(47)	–
	<b>908</b>	<b>–</b>

During May 2007, the company issued unsecured subordinated callable notes to the value of R600 million under its R1.2 billion note programme as alternative capital in terms of its capital optimisation strategy. A further issue of R400 million was placed on open tender in the market during November 2007.

The fixed effective rate for the R600 million issue was 8.6% and 9.6% for the second tranche of R400 million, representing the R203 companion bond plus an appropriate credit spread at the time of the issues. The fixed coupon rate, based on the nominal value of the issues, amounts to 8.25% and for both tranches the optional redemption date is 15 September 2017. Between the optional redemption date and final maturity date of 15 September 2022, a variable interest rate (JIBAR-based) plus additional margin will apply.

Per the conditions set by the Regulator, Santam is required to maintain liquid assets equal to the value of the callable notes until maturity. The callable notes are therefore measured at fair value to minimise undue income statement volatility. The valuation is based on the R203 companion bond.

<b>7. Investment income</b>		
Dividend income	262	192
Interest income	402	308
Foreign exchange differences	2	8
	<b>666</b>	<b>508</b>
<b>8. Income tax expense</b>		
South African normal taxation		
Current year	716	578
Charge for the year	464	465
STC	252	113
Prior year	30	(42)
Foreign taxation	18	8
Income taxation for the year	764	544
Deferred taxation	(222)	49
Current year	(206)	41
STC	(16)	–
Prior year	–	8
<b>Total taxation as per the income statement</b>	<b>542</b>	<b>593</b>

**9. Business combinations**

On 9 April 2007 the group increased its investment in Admiral Professional Underwriting Agency (Pty) Ltd from 28.9% to 70% and on 8 November 2007 to 100%.

Purchase consideration paid	61	–
Less: Net asset value acquired	(16)	–
Investment in associated share previously acquired	7	–
Goodwill	<b>52</b>	<b>–</b>

**10. Broad Based Black Economic Empowerment (BBBEE)**

In February 2007, Santam formally announced its intention to facilitate the acquisition, by a special purpose company ("BEE SPV Co"), of an effective 10% ownership in Santam. In terms of this scheme, Santam shareholders sold 10% of their Santam shares, held by them as at 21 May 2007, to BEE SPV Co for a cash consideration of R82 per share. Following the implementation of the scheme, the BEE SPV Co is now the registered holder of approximately 10% of the issued shares of Santam (excluding treasury shares). In turn, the shares of BEE SPV Co are held by three trusts:

- 26% by the Santam Black Economic Empowerment Staff Trust ("Staff Trust")
- 25% by the Santam Broad Based Black Economic Empowerment Community Trust ("Community Trust")
- 49% by the Santam Black Economic Empowerment Business Partners Trust ("Business Partners Trust")

The acquisition of the shares by BEE SPV Co was funded by a R430 million preference share facility from Sanlam Capital Markets Limited and a bridging loan of R490 million from Sanlam Life Insurance Ltd. The BEE SPV Co will refinance the bridging loan with permanent funding when it becomes due in March 2008. Dividends received by BEE SPV Co from the Santam scheme shares are used to service the debt.

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The Santam scheme shares held by BEE SPV Co will be “locked in” to the SPV until 28 February 2015. Post the “lock-in” period:

- A major portion of the Santam shares will be sold to settle all outstanding debt.
- All remaining Santam shares will be distributed by BEE SPV Co as dividends in specie to the three trusts.
- The three trusts will distribute the remaining Santam shares to participants in accordance with the rules of each trust.

The Staff Trust successfully made the first allocations to Santam staff during the first week of December 2007. Allocations were made in the form of units in the Staff Trust. A share-based payment cost of R1 million was recognised as an expense in the 2007 annual financial statements. This represents the proportionate charge for the allocation made to staff under the Staff Trust in December 2007. No share-based payment cost are recognised in respect of the Community or Business Partners Trust in the 2007 financial year as no allocations were made by 31 December 2007.

As the newly created BEE SPV Co is not controlled by Santam in terms of the requirements as defined by SIC 12 - *Special Purpose Entities*, the entity is not consolidated into Santam's results.

	<b>Audited Year ended 31 Dec 2007</b>	Audited Year ended 31 Dec 2006
<b>11. Earnings per share</b>		
<b>Basic earnings per share</b>		
Profit attributable to the company's equity holders (R million)	<b>1 050</b>	1 844
Weighted average number of ordinary shares in issue (million)	<b>113.67</b>	117.13
Earnings per share (cents)	<b>924</b>	1 574
Earnings per share – Continuing operations (cents)	<b>1 071</b>	1 514
Earnings per share – Discontinued operations (cents)	<b>(147)</b>	60
<b>Diluted earnings per share</b>		
Profit attributable to the company's equity holders (R million)	<b>1 050</b>	1 844
Weighted average number of ordinary shares in issue (million)	<b>113.67</b>	117.13
Adjusted for share options	<b>1.14</b>	1.58
Weighted average number of ordinary shares for diluted earnings per share (million)	<b>114.81</b>	118.71
Diluted basic earnings per share (cents)	<b>914</b>	1 553
Diluted basic earnings per share – Continuing operations (cents)	<b>1 061</b>	1 494
Diluted basic earnings per share – Discontinued operations (cents)	<b>(147)</b>	59
<b>Headline earnings per share</b>		
Profit attributable to the company's equity holders	<b>1 050</b>	1 844
Adjusted for:		
Profit on sale of subsidiaries and associates	<b>(20)</b>	(22)
Headline earnings (R million)	<b>1 030</b>	1 822
Weighted average number of ordinary shares in issue (million)	<b>113.67</b>	117.13
Headline earnings per share (cents)	<b>906</b>	1 555
Headline earnings per share – Continuing operations (cents)	<b>1 054</b>	1 495
Headline earnings per share – Discontinued operations (cents)	<b>(148)</b>	60
<b>Diluted headline earnings per share</b>		
Headline earnings (R million)	<b>1 030</b>	1 822
Weighted average number of ordinary shares for diluted earnings per share (million)	<b>114.81</b>	118.71
Diluted headline earnings per share (cents)	<b>897</b>	1 535
Diluted headline earnings per share – Continuing operations (cents)	<b>1 043</b>	1 476
Diluted headline earnings per share – Discontinued operations (cents)	<b>(146)</b>	59

## COMMENTS

The year under review has been challenging, marked by varying degrees of success. From an underwriting perspective the group did very well in its core Southern African operations, showing an increase in both underwriting profit and net insurance result against 2006. The performance of the international business was however disappointing. Because of the group's exposure to equity instruments, its investment results were negatively affected by the recent turmoil in financial markets. Although investment income for the year exceeded expectations, it ended well below the exceptional levels of 2006. The company successfully concluded its capital restructuring programme during 2007. The STC charge on the special dividend amounted to R245 million, impacting on earnings. Headline earnings of R1 030 million were 42% lower than the previous year, equating to headline earnings per share of 906 cents compared to 1 555 cents in 2006.

In the Southern African operations, excluding cells, Santam achieved an 8% increase in gross written premiums. Given the soft market and the corrective action taken by Santam to retain and procure quality business this is a pleasing result. Growth was achieved across most business classes.

Underwriting margins for the year were in line with 2006, although the second half of the year proved to be more difficult than the first, due to

several catastrophic events, the largest being the floods in the Southern Cape. A number of very large corporate industrial claims adversely affected the property and engineering business classes. Fortunately the timely corrective action taken in personal lines yielded significantly improved results. Underwriting results amongst the specialist business classes varied. Liability business was very profitable whilst our marine business incurred some large losses in the earlier part of the year. Crop insurance resulted in large losses due to severe drought conditions and high incidences of hail in the summer rainfall areas. As part of Santam's ongoing assessment of insurance liabilities in terms of claims experience, the level of the incurred, but not reported (IBNR) reserve, was reduced by a further R30 million in the second half of the year, totalling a reduction of R65 million for the full year. The net acquisition cost ratio of 25.7% increased slightly due to initial expenditure on the large strategic projects.

The net underwriting result of R664 million (2006: R627 million) of the continuing operations exceeded expectations and the overall net underwriting margin was 6.2% against the 6.5% for 2006. Having reached optimum retention levels at an acceptable risk profile, the level of reinsurance earned premium was 16.5% of gross earned premium compared to 17.6% for 2006. If the impact of cell business is excluded, the ratio for the year decreased to 8.2% from 11.5% in 2006.

The underwriting performance of the international operations suffered an after-tax loss of R168 million for the year compared to a R70 million profit in 2006. As reported in our operational update issued in November 2007, the Dublin-based operation had not performed according to expectations and was consequently put into formal runoff. Westminster Motor Insurance Association (WMIA) continued to operate in an increasingly competitive UK motor market with resultant pressure on premium rates and incurred substantial underwriting losses. After careful consideration of Santam's long-term strategic objectives it was decided to divest from its European operations. The process is well advanced and the operations of WMIA and Santam Europe are accordingly now treated as "Discontinued operations" as defined by IFRS 5 – *Non-current Assets Held for Sale and Discontinued Operations*, and reported as such in the group financial statements.

The investment return on insurance funds exceeded that of the previous year by 27%, mainly due to higher interest rates and average float levels (funds generated by insurance activities). The company's operating activities generated R2.1 billion in cash during the year, which was slightly less than the R2.2 billion generated in the comparable period.

The continuing operations achieved a net insurance margin of 9.2% for the year compared to 9.1% for 2006.

For the first ten months of the year Santam's investment performance benefited significantly from the strong local equity market, well ahead of 2006. However, in the last two months the value of local equities sharply declined, *inter alia* influenced by the negative sentiment on global equity markets due to the crisis in the US sub-prime debt market. As a result Santam incurred significant unrealised fair value losses during that period, reducing investment income against the exceptional levels of 2006.

Earnings from associated companies were 28% lower for the year. Contributions from Credit Guarantee Insurance Company continued to be healthy, but returns from Lion of Africa were below expectations.

Santam successfully concluded its capital restructuring programme during 2007. A voluntary share buy-back offer was made and the company bought 5.88% of its issued ordinary shares at R102 per share in April. This resulted in a reduction in share capital of R713 million, effectively lowering the solvency ratio by 6% at the time. As alternative capital in terms of its strategy to optimise its capital structure, the company issued unsecured subordinated callable notes to the value of R600 million on open tender in May, which was followed by a further issue of R400 million in November. In terms of regulatory approval, the subordinated debt of R1 billion is regarded as part of capital for solvency purposes and has the benefit of

substantially reducing the group's weighted average cost of capital. The final phase of the optimisation process was the payment of a special dividend of 2 200 cents per share in December. The overall impact of these actions was to reduce the group's solvency from the 62% at the end of 2006 to 42% at the end of 2007. Net asset value per share decreased from 5 634 cents at the end of 2006 to 3 610 cents at the end of 2007, positioning the group to deliver increased returns on shareholders capital.

During 2007 Santam distributed R3.67 billion to shareholders in the form of normal dividends of R495.6 million, a special dividend of R2.46 billion, and a voluntary share buy-back of R713 million.

Significant progress was made during the year in finalising the Santam Broad Based Black Economic Empowerment (BBBEE) structures following the compulsory 10% share buy-back at R82 per share during May 2007. As Santam, in terms of SIC 12 – *Special Purpose Entities*, does not control the newly created BEE entity, the entity is not consolidated into Santam's results. The first share unit allocations to beneficiaries, being to black staff as members of the Staff Trust, were made during December 2007, resulting in a notional IFRS 2 charge of R1 million for the year.

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 year.

## Prospects

Underwriting margins are expected to remain under pressure due to the softer market, both in commercial and personal lines, and could be especially challenging considering the anticipated deterioration in global and domestic economic conditions. Of particular concern is the reduction in the disposable income of individuals, uncertainty in electricity power supply and deteriorating public infrastructure. Having the benefit of diversification, Santam is well positioned to face these challenges.

In light of the volatility of local financial markets, capital growth on our investment portfolio could be under pressure during 2008. However, as a long-term value investor we need to maintain sufficient exposure to equities in order to deliver acceptable long-term returns on shareholder funds. In line with general consensus we expect interest rates to remain at current levels for the foreseeable future, which will have a positive impact on our cash-related investment returns.

With regard to our BBBEE transaction, the focus in 2008 is set on identifying and making allocations to the participants of the Business Partners Trust and the Community Trust, the first of which are expected during the first half of 2008.

**Declaration of dividend  
(Number 108)**

Notice is hereby given that the board has declared a final dividend of 244 cents per share (2006: 262 cents), bringing the total dividend for the year to 410 cents per share (2006: 380 cents), an increase of 8%. Shareholders are advised that the last day to trade “cum dividend” will be Thursday, 13 March 2008. The shares will trade “ex dividend” from the commencement of business on Friday, 14 March 2008. The record date will be Thursday, 20 March 2008, and the payment date will be Tuesday, 25 March 2008. Certified shareholders may not dematerialise or rematerialise their shares between Friday, 14 March 2008, and Thursday, 20 March 2008, both dates inclusive.

**Auditors’ report**

PricewaterhouseCoopers Inc have audited the results for the year and their unqualified audit reports on the 31 December 2007 annual financial statements and the abridged financial statements are available on request at the company’s registered office.

On behalf of the board

DK Smith  
Chairman

IM Kirk  
Chief Executive Officer

26 February 2008