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**Santam Limited** and its subsidiaries  
reviewed interim report for  
the six months ended 30 June **2007**

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# HIGHLIGHTS

- *Underwriting profit increased by 126%*
- *Headline earnings of 803 cps, up 61%*
- *Annualised return on shareholders' funds of 27%*
- *R947 million cash generated by operations*
- *Repurchased 5.88% of share capital and raised R600 million of debt*
- *Interim dividend of 166 cps*



**CONSOLIDATED BALANCE SHEETS**

	Notes	Reviewed At 30 June 2007 R million	Reviewed At 30 June 2006 R million	Audited At 31 December 2006 R million
<b>ASSETS</b>				
<b>Non-Current assets</b>				
Property and equipment		63	57	59
Intangible assets		147	107	108
Deferred income tax		39	35	27
Investments in associates		240	254	215
Financial assets				
Equity securities				
- at fair value through income	3	5 672	4 439	5 435
Debt securities				
- at fair value through income	3	2 255	2 029	2 106
<b>Current assets</b>				
Reinsurance assets		2 026	2 302	2 080
Deferred acquisition costs		222	203	211
Loans and receivables including insurance receivables		1 747	1 458	1 394
Income tax assets		3	-	39
Cash and cash equivalents		5 682	4 564	5 142
<b>Total assets</b>		<b>18 096</b>	<b>15 448</b>	<b>16 816</b>
<b>EQUITY</b>				
<b>Capital and reserves attributable to the company's equity holders</b>				
Share capital		99	67	71
Treasury shares	4	(713)	-	-
Other reserves		1 186	982	1 119
Distributable reserves		6 026	4 405	5 437
		<b>6 598</b>	<b>5 454</b>	<b>6 627</b>
<b>Minority interest</b>		<b>127</b>	<b>110</b>	<b>123</b>
<b>Total equity</b>		<b>6 725</b>	<b>5 564</b>	<b>6 750</b>
<b>LIABILITIES</b>				
<b>Non-Current liabilities</b>				
Cell owners' interest		383	286	329
Deferred income tax		249	224	297
Financial liabilities	5			
Debt securities		553	-	-
Investment contracts		289	250	276
Derivative		28	-	-
<b>Current liabilities</b>				
Insurance liabilities		8 194	7 483	7 694
Deferred reinsurance acquisition revenue		55	68	74
Provisions for other liabilities and charges		152	150	148
Trade and other payables		1 350	1 348	1 213
Current income tax liabilities		118	75	35
<b>Total liabilities</b>		<b>11 371</b>	<b>9 884</b>	<b>10 066</b>
<b>Total shareholders' equity and liabilities</b>		<b>18 096</b>	<b>15 448</b>	<b>16 816</b>

**CONSOLIDATED INCOME STATEMENTS**

	Notes	Reviewed Six months ended 30 June 2007 R million	Reviewed Six months ended 30 June 2006 R million	% Change	Audited Year ended 31 December 2006 R million
<b>Gross written premium</b>		<b>6 664</b>	<b>5 879</b>		<b>12 736</b>
Less: reinsurance premium		<b>1 151</b>	<b>934</b>	13	<b>2 052</b>
<b>Net premium</b>		<b>5 513</b>	<b>4 945</b>	11	<b>10 684</b>
Less: change in unearned premium					
Gross amount		<b>110</b>	<b>57</b>		<b>428</b>
Reinsurers' share		<b>(73)</b>	<b>(9)</b>		<b>53</b>
<b>Net insurance premium revenue</b>		<b>5 476</b>	<b>4 897</b>	12	<b>10 203</b>
Investment income	6	<b>299</b>	<b>246</b>	21	<b>540</b>
Income from reinsurance contracts ceded		<b>162</b>	<b>190</b>		<b>342</b>
Net gains on financial assets at fair value through income		<b>485</b>	<b>415</b>		<b>1 265</b>
<b>Net income</b>		<b>6 422</b>	<b>5 748</b>	12	<b>12 350</b>
Insurance claims and loss adjustment expenses		<b>4 196</b>	<b>3 838</b>		<b>8 089</b>
Insurance claims and loss adjustment expenses recovered from reinsurers		<b>(487)</b>	<b>(328)</b>		<b>(1 052)</b>
<b>Net insurance benefits and claims</b>		<b>3 709</b>	<b>3 510</b>	6	<b>7 037</b>
Expenses for the acquisition of insurance contracts		<b>917</b>	<b>863</b>		<b>1 764</b>
Expenses for marketing and administration		<b>611</b>	<b>537</b>		<b>1 117</b>
Expenses for asset management services rendered		<b>12</b>	<b>20</b>		<b>46</b>
Amortisation of intangible assets		<b>1</b>	<b>1</b>		<b>2</b>
<b>Expenses</b>		<b>5 250</b>	<b>4 931</b>	6	<b>9 966</b>
<b>Results of operating activities</b>		<b>1 172</b>	<b>817</b>	43	<b>2 384</b>
Finance costs		<b>(9)</b>	<b>(6)</b>		<b>(7)</b>
Share of profit of associates		<b>50</b>	<b>52</b>		<b>105</b>
<b>Profit before tax</b>		<b>1 213</b>	<b>863</b>	41	<b>2 482</b>
Income tax expense	7	<b>(275)</b>	<b>(281)</b>		<b>(615)</b>
<b>Profit for the period</b>		<b>938</b>	<b>582</b>	61	<b>1 867</b>
<b>Attributable to:</b>					
- equity holders of the company		<b>928</b>	<b>577</b>		<b>1 844</b>
- minority interest		<b>10</b>	<b>5</b>		<b>23</b>
		<b>938</b>	<b>582</b>		<b>1 867</b>
<b>Earnings attributable to equity shareholders</b>		<b>cents</b>	<b>cents</b>	<b>% Change</b>	<b>cents</b>
<b>Earnings per share</b>	10				
Basic earnings per share		<b>804</b>	<b>493</b>	63	<b>1 574</b>
Diluted earnings per share		<b>793</b>	<b>483</b>	64	<b>1 553</b>
Headline earnings per share		<b>803</b>	<b>498</b>	61	<b>1 555</b>
Diluted headline earnings per share		<b>793</b>	<b>488</b>	63	<b>1 535</b>
<b>Weighted average number of shares - millions</b>		<b>115.45</b>	<b>117.09</b>		<b>117.13</b>
<b>Dividend per share</b>		<b>166</b>	<b>118</b>	41	<b>380</b>

### CONSOLIDATED STATEMENTS 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	R million	R million
<b>Balance as at 1 January 2006</b>	42	-	763	4 922	125	5 852
Share issue	29	-	-	-	-	29
Retained income for the period	-	-	-	1 844	23	1 867
Transfer to reserves	-	-	177	(177)	-	-
Share-based payments	-	-	-	13	-	13
Currency translation differences	-	-	179	-	-	179
Dividends paid	-	-	-	(1 165)	(20)	(1 185)
Interest sold by minorities	-	-	-	-	(5)	(5)
<b>Balance as at 31 December 2006</b>	71	-	1 119	5 437	123	6 750
Share issue	28	-	-	-	-	28
Purchase of treasury shares	-	(713)	-	-	-	(713)
Retained income for the period	-	-	-	928	10	938
Transfer to reserves	-	-	35	(35)	-	-
Share-based payments	-	-	-	6	-	6
Currency translation differences	-	-	32	-	-	32
Dividends paid	-	-	-	(310)	(10)	(320)
Interest acquired by minorities	-	-	-	-	4	4
<b>Balance as at 30 June 2007</b>	99	(713)	1 186	6 026	127	6 725
<b>Balance as at 1 January 2006</b>	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 sold by minorities	-	-	-	-	(11)	(11)
<b>Balance as at 30 June 2006</b>	67	-	982	4 405	110	5 564

### CONSOLIDATED CASH FLOW STATEMENTS

	Notes	Reviewed Six months ended 30 June 2007 R million	Reviewed Six months ended 30 June 2006 R million	Audited Year ended 31 December 2006 R million
Cash generated from operations		947	1 007	2 196
Income tax paid		(214)	(277)	(606)
<b>Net cash from operating activities</b>		733	730	1 590
<b>Cash flows from investing activities</b>				
Cash generated/(utilised) in investment activities		136	(205)	(390)
Acquisition of subsidiary, net of cash acquired	8	(30)	(30)	(30)
Cash acquired/(sold) through acquisition/sale of subsidiary		41	-	(188)
Purchases of equipment		(12)	(12)	(18)
Proceeds from sale of equipment		-	-	1
Capital refund from associated companies		-	1	1
Proceeds from sale of associated companies		1	23	23
Proceeds from sale of subsidiary, net of cash sold		-	1	183
Acquisition of book of business		-	(2)	(2)
<b>Net cash from investing activities</b>		136	(224)	(420)
<b>Cash flows from financing activities</b>				
Proceeds from issuance of ordinary shares		28	25	29
Purchase of treasury shares		(713)	-	-
Increase in financial liabilities		591	-	-
Dividends paid to company's shareholders		(310)	(1 032)	(1 165)
Dividends paid to minority interest		(10)	(9)	(20)
Increase in cell owners' interest		54	19	61
<b>Net cash used in financing activities</b>		(360)	(997)	(1 095)
<b>Net increase/(decrease) in cash and cash equivalents</b>		509	(491)	75
Cash and cash equivalents at beginning of period		5 142	4 927	4 927
Exchange gains on cash and cash equivalents		31	128	140
<b>Cash and cash equivalents at end of period</b>		5 682	4 564	5 142

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The consolidated financial statements for the six months ended 30 June 2007 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 condensed consolidated 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 six months ended 30 June 2007 are consistent with those applied in the annual financial statements for the year ended 31 December 2006 and for the results for the six months ended 30 June 2006 in terms of IFRS.

### 2. SEGMENTAL REPORT

#### 2.1 For the six months ended 30 June 2007

Business activity	Insurance activities R million	Investment activities R million	Total R million
Gross written premium	6 664	-	6 664
Net written premium	5 513	-	5 513
Net earned premium	5 476	-	5 476
Claims incurred	3 709	-	3 709
Net commission	755	-	755
Management expenses	611	-	611
<b>Underwriting result</b>	<b>401</b>	<b>-</b>	<b>401</b>
Investment return on insurance funds	166	-	166
<b>Net insurance result</b>	<b>567</b>	<b>-</b>	<b>567</b>
Investment income net of management fee	-	597	597
Income from associates	-	50	50
Amortisation of intangible assets	(1)	-	(1)
<b>Income before taxation</b>	<b>566</b>	<b>647</b>	<b>1 213</b>
<b>Total assets</b>	<b>9 929</b>	<b>8 167</b>	<b>18 096</b>
<b>Total liabilities</b>	<b>10 818</b>	<b>553</b>	<b>11 371</b>

Insurance class	Gross written premium R million	Underwriting result R million	Total assets R million	Total liabilities R million
Accident and health	160	9	33	129
Alternative risk	942	7	385	1 935
Crop	83	(47)	55	109
Engineering	240	132	163	309
Guarantee	9	19	22	35
Liability	488	175	756	1 676
Miscellaneous	13	(3)	9	25
Motor	2 761	42	237	2 035
Property	1 817	66	514	1 760
Transportation	151	1	74	237
Unallocated	-	-	15 848	3 121
<b>TOTAL</b>	<b>6 664</b>	<b>401</b>	<b>18 096</b>	<b>11 371</b>
<b>Comprising:</b>				
Commercial insurance	3 393	349	1 841	5 922
Personal insurance	2 329	45	22	393
Alternative risk	942	7	385	1 935
Unallocated	-	-	15 848	3 121
<b>TOTAL</b>	<b>6 664</b>	<b>401</b>	<b>18 096</b>	<b>11 371</b>
<b>Geographical</b>				
Southern Africa	6 269	470	15 825	10 062
UK and Europe	395	(69)	2 271	1 309
<b>TOTAL</b>	<b>6 664</b>	<b>401</b>	<b>18 096</b>	<b>11 371</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.**

**2.2 For the six months ended 30 June 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	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
<b>Underwriting result</b>	<b>177</b>	<b>-</b>	<b>177</b>
Investment return on insurance funds	127	-	127
<b>Net insurance result</b>	<b>304</b>	<b>-</b>	<b>304</b>
Investment income net of management fee	-	508	508
Income from associates	-	52	52
Amortisation of intangible assets	(1)	-	(1)
<b>Income before taxation</b>	<b>303</b>	<b>560</b>	<b>863</b>
<b>Total assets</b>	<b>8 727</b>	<b>6 721</b>	<b>15 448</b>
<b>Total liabilities</b>	<b>9 884</b>	<b>-</b>	<b>9 884</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>
<b>Insurance class</b>				
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
<b>TOTAL</b>	<b>5 879</b>	<b>177</b>	<b>15 448</b>	<b>9 884</b>
<b>Comprising:</b>				
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
<b>TOTAL</b>	<b>5 879</b>	<b>177</b>	<b>15 448</b>	<b>9 884</b>
<b>Geographical</b>				
Southern Africa	5 589	198	13 217	8 461
UK and Europe	290	(21)	2 231	1 423
<b>TOTAL</b>	<b>5 879</b>	<b>177</b>	<b>15 448</b>	<b>9 884</b>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.**

**2.3 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	12 736	-	12 736
Net written premium	10 684	-	10 684
Net earned premium	10 203	-	10 203
Claims incurred	7 037	-	7 037
Net commission	1 422	-	1 422
Management expenses	1 117	-	1 117
<b>Underwriting result</b>	627	-	627
Investment return on insurance funds	279	-	279
<b>Net insurance result</b>	906	-	906
Investment income net of management fee	-	1 473	1 473
Income from associates	-	105	105
Amortisation of intangible asset	(2)	-	(2)
<b>Income before taxation</b>	904	1 578	2 482
<b>Total assets</b>	9 060	7 756	16 816
<b>Total liabilities</b>	10 044	22	10 066

  

	<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>
<b>Insurance class</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	5 171	254	179	1 801
Property	3 748	(1)	580	1 678
Transportation	290	64	46	178
Unallocated	-	-	14 525	2 298
<b>TOTAL</b>	<b>12 736</b>	<b>627</b>	<b>16 816</b>	<b>10 066</b>

  

<b>Comprising:</b>				
Commercial insurance	6 815	551	2 020	5 425
Personal insurance	4 505	58	27	752
Alternative risk	1 416	18	244	1 591
Unallocated	-	-	14 525	2 298
<b>TOTAL</b>	<b>12 736</b>	<b>627</b>	<b>16 816</b>	<b>10 066</b>

  

<b>Geographical</b>				
Southern Africa	11 864	617	14 786	8 989
UK and Europe	872	10	2 030	1 077
<b>TOTAL</b>	<b>12 736</b>	<b>627</b>	<b>16 816</b>	<b>10 066</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.**

**3. FINANCIAL ASSETS**

	Reviewed At 30 June 2007 R million	Reviewed At 30 June 2006 R million	Audited At 31 December 2006 R million
The group's financial assets are summarised below by measurement category.			
Fair value through income	7 927	6 468	7 541
Loans and receivables	1 747	1 458	1 394
<b>Total financial assets</b>	<b>9 674</b>	<b>7 926</b>	<b>8 935</b>
<b>Financial assets at fair value through income</b>			
Equity securities: - quoted	5 651	4 423	5 415
- unquoted	21	16	20
	<b>5 672</b>	<b>4 439</b>	<b>5 435</b>
Debt securities - fixed interest rate: - government and other bonds	1 506	1 017	1 339
- unquoted bonds	-	312	1
- unquoted redeemable preferences shares	749	700	766
	<b>2 255</b>	<b>2 029</b>	<b>2 106</b>
<b>Total financial assets at fair value through income</b>	<b>7 927</b>	<b>6 468</b>	<b>7 541</b>

**4. TREASURY SHARES**

The group acquired 6 972 940 of its own shares through a voluntary share buy-back offer on 20 April 2007 at R102 per share. The amount paid to acquire the shares was R713 million and has been deducted from shareholders' equity. The shares are held as 'Treasury shares'. The company has the right to reissue these shares at a later date subject to approval by the JSE and the regulator.

**5. FINANCIAL LIABILITIES**

Debt securities: Debentures issued	586	-	-
Fair value adjustment	(33)	-	-
Investment contracts: At the beginning of the year	276	250	250
Fair value adjustment	13	-	26
Derivative: At fair value through income	28	-	-
	<b>870</b>	<b>250</b>	<b>276</b>

The group issued 600 000 unsecured subordinated debentures with a nominal value of R600 million on 11 May 2007 for R586 million (net of accrued interest and costs) at 8.25%. On 15 September 2017 the debentures are redeemable at the option of Santam and from that date until maturity, 15 September 2022, a floating rate will apply. The value of the liability was determined at issuance of the debentures. The fair value of the liability was calculated using a market interest rate for an equivalent non-convertible bond (R203).

**6. INVESTMENT INCOME**

Dividend income	106	88	192
Interest income	187	141	333
Foreign exchange differences	6	17	15
	<b>299</b>	<b>246</b>	<b>540</b>

**7. INCOME TAX EXPENSE**

South African normal taxation			
Current year	314	307	578
Charge for the year	295	194	465
STC	19	113	113
Prior year	23	-	(42)
Foreign taxation			
Current year	(1)	2	43
Income taxation for the year	336	309	579
Deferred taxation	(61)	(28)	36
Current year	(61)	(28)	27
Prior year	-	-	9
<b>Total taxation as per the income statement</b>	<b>275</b>	<b>281</b>	<b>615</b>

**8. BUSINESS COMBINATIONS**

During the first six months the group acquired an additional shareholding in Admiral Professional Underwriting Agency, increasing its shareholding from 28.9% to 70%.

Purchase consideration paid	30
Net asset value acquired	9
Less: Investment in associated share	(9)
Goodwill	<b>30</b>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS cont.**

**9. 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 at the record date (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 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 Staff Trust - This will ensure that a meaningful portion of Santam's equity is owned by black staff and that they have a worthwhile role in Santam's operations, management and development,
- 25% by the Community Trust - This will allow Santam to be truly broad-based, thereby providing upliftment of black people in the bigger community,
- 49% by the Business Partners Trust - This will benefit black strategic business partners of Santam and enable them to participate, at ownership level, in the future growth of Santam.

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

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 deal with the remaining shares in accordance with the rules of each trust.

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. Furthermore, as the detailed arrangements of the BEE share trusts are in the process of being finalised, the trusts have not granted any shares to beneficiaries yet and no charge in terms of IFRS 2 has been included in the income statement for the first half of 2007.

**10. EARNINGS PER SHARE**

	Reviewed Six months ended 30 June 2007 R million	Reviewed Six months ended 30 June 2006 R million	Audited Year ended 31 December 2006 R million
<b>Basic earnings per share</b>			
Profit attributable to the company's equity holders (R million)	928	577	1 844
Weighted average number of ordinary shares in issue (million)	115.45	117.09	117.13
Earnings per share (cents)	804	493	1 574
<b>Diluted earnings per share</b>			
Profit attributable to the company's equity holders (R million)	928	577	1 844
Weighted average number of ordinary shares in issue (million)	115.45	117.09	117.13
Adjusted for share-options	1.53	2.32	1.58
Weighted average number of ordinary shares for diluted earnings per share (million)	116.98	119.41	118.71
Diluted basic earnings per share (cents)	793	483	1 553
<b>Headline earnings per share</b>			
Profit attributable to the company's equity holders	928	577	1 844
Adjust for:			
(Profit)/loss on sale of subsidiaries and associates	(1)	6	(22)
Headline earnings (R million)	927	583	1 822
Weighted average number of ordinary shares in issue (million)	115.45	117.09	117.13
Headline earnings per share (cents)	803	498	1 555
<b>Diluted headline earnings per share</b>			
Headline earnings (R million)	927	583	1 822
Weighted average number of ordinary shares for diluted earnings per share (million)	116.98	119.41	118.71
Diluted headline earnings per share (cents)	793	488	1 535

## COMMENTS

Santam experienced an excellent first half, both from an underwriting and investment income perspective, generating an annualised return on weighted average shareholders' funds of 27.4% compared to 21.6% for June 2006. Headline earnings of R927 million for the six months were 59% higher than the same period in 2006, equating to headline earnings per share of 803 cents against 498 cents in 2006.

Following on the growth momentum of 2006, Santam achieved a 13% increase in gross written premiums during the first six months of 2007. Growth at 12% in our southern African operations was pleasing, given the competition in the market and the corrective action taken by Santam to retain and procure only quality and profitable business. International premiums increased by 36%, largely due to significant inflows in Santam Europe, while Westminster Motor Insurance Association (WMIA) also experienced healthy double-digit growth.

Underwriting result of R401 million (1H2006: R177 million) exceeded expectations with the overall net underwriting margin being double that achieved during the first half of 2006. The timely corrective action taken regarding the personal lines business yielded significantly improved results compared to 2006 despite us operating in a very competitive market. Profitability varied in the specialist underwriting classes. While results were affected favourably by the downward estimation of large corporate claims, profitability was negatively affected by the continued softening of premiums, large marine losses and high claims in the crop environment due to severe drought in the summer rainfall areas of South Africa. 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 R35 million during the period, mostly evident in the liability class. Continued initiatives to improve efficiencies in cost structures ensured that the acquisition cost ratio remained in line with that of 2006, and below the 25% level.

The underwriting performance of the international operations was disappointing for the first half of 2007. Both WMIA and

Santam Europe were significantly affected by the unusually wet weather experienced in the United Kingdom and in Ireland, culminating in increased claims with resultant underwriting losses for these operations.

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 15.9% for 2006. If the impact of cell business is excluded, the ratio for the first half of 2007 decreased to 8.7% as opposed to 11.1% for the same period in 2006.

The combined effect of all insurance activities resulted in a net insurance margin of 10.4% for the first half of the year compared to 6.2% for the same period in 2006.

Investment return on insurance funds exceeded that of the previous year by 31%, mainly due to higher interest rates and average float levels (funds generated by insurance activities). The company's operating activities generated R947 million in cash during the first half of 2007, which was somewhat less than the R1007 million generated during the same period in 2006.

Benefiting significantly from the continued bullish performance of the local equity market during the first four months of the year, investment-related income (excluding the investment return on insurance funds) was 17% higher than the exceptional performance achieved during the first half of 2006. Earnings from associated companies for the first half of the year were in line with the same period in 2006, with very good results reported by Credit Guarantee Insurance Corporation of Africa Limited and NICO Holdings Malawi.

During April 2007, through a voluntary share buy-back, Santam bought 5.88% of its issued shares at R102 per share. This resulted in a reduction in share capital of R713 million, translating into a 6% reduction in the solvency ratio at that time. During May 2007, Santam issued unsecured subordinated callable notes to the value of R600 million on open tender as alternative capital in terms of its strategy to optimise its capital structure. In terms of regulatory approval, this subordinated debt is regarded as part of capital for solvency purposes. These changes in the capital structure, as well as the high profitability of the first half

of the year, resulted in a solvency ratio of 64% at the end of June, compared to the figure of 62% as at the end of 2006. Net asset value per share increased from 5634 cents at the end of 2006 to 5894 cents at the end of June 2007.

Significant progress was made 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 the newly-created BEE entity is not controlled by Santam in terms of SIC 12 - Special Purpose Entities, the entity is not consolidated into Santam's results. Furthermore, as share allocations are yet to be made to individual beneficiaries by the respective BEE share trusts, no charge in terms of IFRS 2 has been included in the income statement for the first half of 2007.

Ian Kirk was appointed as the Chief Executive Officer with effect 14 June 2007 when Steffen Gilbert stepped down.

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

Building on the strong base of healthy underwriting business, Santam will aim to maintain margins above long-term averages. Underwriting margins are expected to remain under pressure due to the softer market both in the commercial and personal lines environments, but corrective action continues to be taken in those areas, i.e. portfolio management, where profitability is not yet at acceptable levels. There is ongoing focus on optimising the return generated by our international investments. Santam will endeavour to continue to grow its market share without compromising sustainable profitability. Significant progress has been made in the capital restructuring of the company with actions continuing to improve capital efficiency even further.

In light of the recent volatility and uncertainty in worldwide equity markets, the South African market is being affected similarly; consequently, the achievement of significant capital growth during the second half is uncertain. Anticipated higher interest-rate levels, however, would have a favourable effect on cash-related investments.

The company has decided to revise its dividend policy with respect to the ratio of interim to final dividends to reflect profitability and cash generation trends. Consequently the level of the interim dividend has been increased. The final dividend will be considered taking due cognisance of profitability for the year.

## DECLARATION OF DIVIDEND (number 106)

Notice is hereby given that the board has declared an interim dividend of 166 cents per share (2006: 118 cents). Shareholders are advised that the last day to trade "cum dividend" will be Friday, 7 September 2007. The shares will trade "ex dividend" from the commencement of business on Monday, 10 September 2007. The record date will be Friday, 14 September 2007, and the payment date will be Monday, 17 September 2007. Certified shareholders may not dematerialise or rematerialise their shares between Monday, 10 September 2007, and Friday, 14 September 2007, both dates inclusive.

## AUDITORS' REPORT

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

On behalf of the board

DK Smith	IM Kirk
Chairman	Chief Executive

20 August 2007

**NON-EXECUTIVE DIRECTORS**

BTPKM Gamedze, JJ Geldenhuys,  
JG le Roux, 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**

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ISIN ZAE000006854

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NSX share code: SNM

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