thinking ahead ...
creating opportunities

2004 ANNUAL REPORT

Sanlam
Thinking ahead

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FINANCIAL CALENDAR

Annual general meeting	1 June 2005
Interim results	8 September 2005
Trading update	2 June 2005 and 8 December 2005

DIVIDENDS

Last date to trade for 2004 dividend	15 April 2005
Shares will trade ex-dividend from	18 April 2005
Record date for 2004 dividend	22 April 2005
Payment of dividend for 2004	18 May 2005

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creating opportunities

This is our seventh annual report since demutualisation in late 1998.

In the six years since then Sanlam has made substantive progress in a highly dynamic environment.

The process is ongoing. We are realistic about the challenges we face and excited by the opportunities open to us. We are committed to perform and conduct our business in the interest of all our stakeholders and in line with our vision – to be the leader in wealth creation.

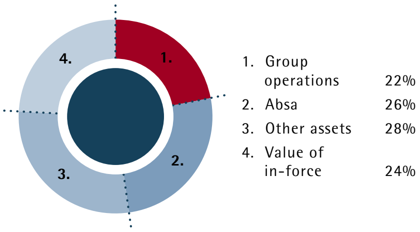
In six years, we have taken great strides and made tough decisions. Most important, we have chosen our direction.

Sanlam is a truly South African company and we seek to be a world-class financial services player. We seek to deliver appropriate returns from superior performance in every aspect of our business.

We understand what this means and it inspires us.

This report reflects the results of our significant progress and achievements in 2004 and details the opportunities we are pursuing. We trust that these are in line with your expectations of the Sanlam group and we would welcome your comments to the addresses or telephone number provided on the opposite page or per e-mail to ceo@sanlam.co.za.

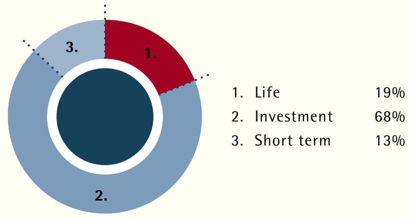
SANLAM GROUP EMBEDDED VALUE

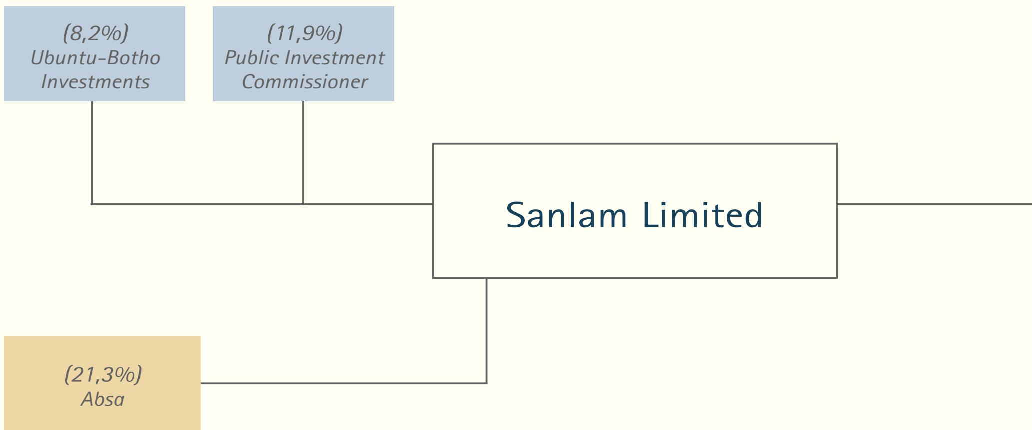


Sanlam was established in 1918 and is a leading financial services group in South Africa. It demutualised in 1998 and is listed on the JSE Securities Exchange in Johannesburg and on the Namibian Stock Exchange.

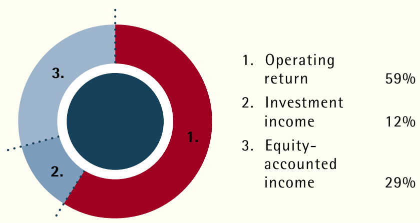
On 31 December 2004 the Group had R350 billion in assets under management and administration. The Sanlam group conducts its business through Sanlam Limited, the corporate head office, and four business clusters.

CONTRIBUTION TO NEW BUSINESS INFLOWS



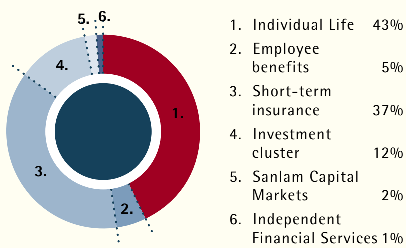


CONTRIBUTION TO CORE EARNINGS



The corporate head office is responsible for the Group's centralised functions which include strategic direction, financial and risk management, group marketing and communications, group human resources and information technology, corporate social investment and general group services.

CONTRIBUTION BY BUSINESSES TO RESULT FROM OPERATIONS



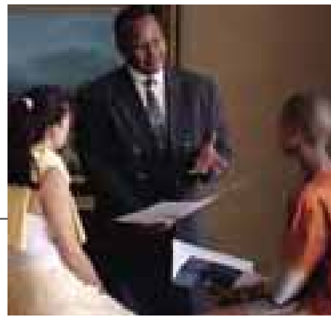
Through the restructuring of the former banking cluster and Gensec Bank, **Sanlam Capital Markets** was established in 2004 and now reports directly to the corporate head office. It provides risk management and structured product solutions and associated capital market activities for the South African savings industry, public sector enterprises and corporates.

LIFE INSURANCE CLUSTER

The Life Insurance cluster includes Sanlam Individual Life and Sanlam Employee Benefits.

Sanlam Individual Life is a major provider of a wide range of individual life insurance and personal financial services and products, including estate planning and trusts, home loans, personal loans, linked products, money transfer and financial services in South Africa and Namibia. It conducts business in the United Kingdom through Merchant Investors Assurance, which it acquired in 2003.

Sanlam Employee Benefits provides life insurance, investment and annuity products for group schemes and retirement funds and fund administration for retirement and umbrella funds.



SHORT-TERM INSURANCE CLUSTER

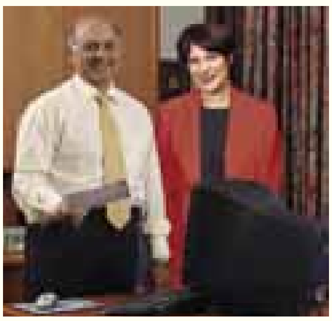
The Short-term Insurance cluster is comprised of a 52,5% shareholding (49,2% in shareholder funds) in **Santam**, the leading short-term insurer in South Africa. Santam focuses on the corporate, commercial and personal markets. It has a market share of about 25%, total assets of more than R12 billion, a countrywide infrastructure and broker network with more than 650 000 personal lines policyholders. Santam has strategic investments in the insurance industry in Namibia, Malawi, Zimbabwe, Zambia and the United Kingdom.

INVESTMENT CLUSTER

The Investment cluster, driven by **Sanlam Investment Management**, incorporates Sanlam's investment-related businesses in South Africa, the United Kingdom, Europe and Namibia. The Investment cluster's areas of service and products include traditional asset management, alternative investment products, property asset management, collective investments (unit trusts), private client investment management and stockbroking, multi-manager management and investment administration.

INDEPENDENT FINANCIAL SERVICES CLUSTER

The **Independent Financial Services** cluster invests in independent customer-facing entities and intermediary businesses in the financial services industry that are generally not Sanlam branded. It provides independent financial advice as well as the distribution and packaging of financial services to high growth segments and independent consulting and actuarial services in the employment benefit market.



JAC LAUBSCHER
Group economist

Looking back on 2004, one can conclude that it has been the best year for the South African economy and financial markets since 2001. Apparently, the negative consequences of the rand currency crisis of December 2001, the World Trade Centre attacks on 9/11 and the ensuing second Gulf War have finally been put to rest. One should note, however, that the financial markets were rescued from a mediocre performance only in the fourth quarter of 2004.

An investment in the JSE's All Share Index rendered a cumulative return of only 0,9% for the seven months to the end of July 2004. However, the unexpected reduction in the repurchase rate by the South African Reserve Bank in August 2004 stimulated the equity market, and the upward revision to the Gross Domestic Product (GDP) statistics in November, provided a further boost. These events caused the market to reassess its perception of the growth potential of the economy and, therefore, company profits and associated valuations.

Apart from these factors, the reassessment of emerging markets by international investors also played a role. This reassessment was reflected in a consistently downward trend in risk premiums. Investor enthusiasm for emerging markets reached South African shores in force in the fourth quarter of 2004, when net foreign purchases of domestic securities reached an all-time high.

The result was that equities managed to achieve a return of 25,4% for the full calendar year.

The bond market showed a similar trend. By the end of July, the cumulative return on an investment in the All Bond Index for the calendar year stood at 2,1% but, by the end of the year, it had improved to 15,2%. However, returns on cash continued to decline in the wake of lower interest rates.

The positive foreign sentiment towards South Africa was reinforced by the interest expressed by Barclays plc in acquiring a controlling interest in Absa, and the expectation of an upgrade to South Africa's international credit rating, which was subsequently confirmed in January 2005 when Moody's Investor Services made an announcement to this effect.

The appreciation in the value of the rand contributed significantly to domestic assets outperforming foreign assets, and investors showed little interest in utilising the strength of the rand to increase off-shore exposure. Rand volatility remained at its elevated level.

The euphoria in financial markets was underpinned by a solid performance from the real economy, with quarter-on-quarter GDP growth accelerating from 1,8% per annum in Q2 2003 to 5,6% per annum in Q3 2004. Although the growth momentum slowed down in Q4 2004, an overall growth rate of 3,7% was achieved for 2004, compared with 2,8% in 2003. The improvement in economic growth was largely the result of growth in final consumption of households increasing from 3,5% per annum in Q2 2003 to 6,7% per annum in Q3 2004.

The real disposable income of households increased at an annualised rate of 6% in the first nine months of 2004, and the conservative level of household debt relative to disposable income enabled households to expand their spending further in a low interest rate environment. It is encouraging that households allocated part of their increased disposable income to raise their saving rate.

While one should acknowledge that the economic and financial market environment has indeed improved, and that risk-taking is becoming fashionable again, one should take a prudent view of this trend. It is also appropriate to recognise that the recent past has been a period of exceptional liquidity, with interest rates being at their lowest level in many years – first internationally and subsequently in South Africa. How things will evolve once conditions return to normal remains uncertain.

The robustness of the structural improvement in the South African economy, as reflected in the improved international financial position of the country and low inflation and interest rates, still needs to be tested. For life insurers, creating a value proposition that is acceptable to the public in such an environment remains a daunting task.

Of particular importance is whether signs of a turnaround in the ability of the economy to create jobs can be confirmed. Once this happens, a higher growth trajectory will become self-sustainable.

The financial system is an integral part of the institutional framework of the economy. In this regard, the financial services industry will continue to face the challenge of contributing to South Africa's development. The life insurance industry needs to find a solution to the problem of access to its services for the lower income groups, in particular those people who find themselves in the largely informal "second economy". At the same time, the industry is faced with the challenge of demonstrating its commitment to contribute to growth and employment through its asset management practices.

		2004	2003	Δ%
SANLAM LIMITED GROUP				
Earnings				
Result from operations before tax	R million	3 520	2 405	46
Core earnings[1]	R million	3 340	2 641	26
Headline earnings[2]	R million	3 185	2 351	35
Adjusted headline earnings based on the LTRR[3]	R million	4 141	3 291	26
Net result from operations per share	cents	72,1	53,2	36
Core earnings per share[1]	cents	122,3	100,2	22
Headline earnings per share[2]	cents	116,6	89,2	31
Adjusted headline earnings per share based on the LTRR[3]	cents	151,6	124,9	21
Group administration cost ratio[4]	%	30,6	33,6	
Group operating margin[5]	%	23,3	17,5	
Business volumes				
New business volumes	R million	59 852	38 786	54
Net funds flow	R million	16 591	4 956	235
New business embedded value	R million	324	232	40
Life insurance new business APE[6]	R million	1 958	1 832	7
New business embedded value margin	%	16,5	12,7	
Embedded value				
Embedded value	R million	36 682	29 231	
Embedded value per share	cents	1 346	1 131	
Growth from life business	%	26,9	24,7	
Return on embedded value[7]	%	27,7	14,0	
SANLAM LIFE INSURANCE LIMITED				
Shareholders' funds	R million	25 983	19 736	
Capital adequacy requirements (CAR)	R million	6 550	7 175	
CAR covered by prudential capital	times	3,7	2,6	

NOTES

[1] *Core earnings = net result from operations, investment income and equity-accounted earnings.*

[2] *Headline earnings = core earnings after assistance to policyholders' funds and net gains/losses on derivative instruments.*

[3] *Adjusted headline earnings based on the LTRR = net result from operations and total investment return based on a long-term rate of return.*

[4] *Administration costs as a percentage of income earned by the shareholders' funds less sales remuneration.*

[5] *Result from operations as a percentage of income earned by the shareholders' funds less sales remuneration.*

[6] *APE = Annual premium equivalent and is equal to new recurring premiums (excluding indexed growth premiums) plus 10% of single premiums.*

[7] *Growth in embedded value (with dividends paid, capital raised and cost of treasury shares acquired reversed) as a percentage of embedded value at the beginning of the period.*

Strong earnings

Headline earnings per share up 31%

Core earnings per share up 22%

Strong performance by all businesses

- Result from operations before tax up 46%
- Operating margin of 23,3% (17,5% for 2003)

Dividend up 25% to 50 cents per share

Significantly improved business flows

Net funds inflow of R17 billion (R5 billion in 2003)

New Life business inflows up 12%

Investment inflows up 86% to R41 billion

Embedded value

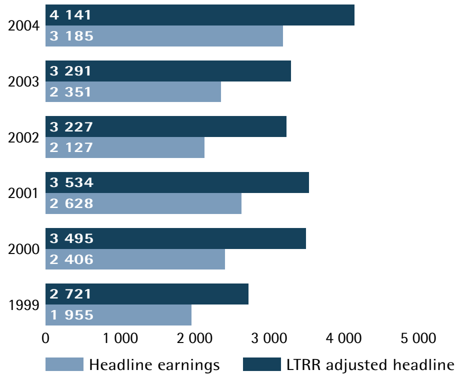
Embedded value of 1 346 cents per share – up 19%

Return on embedded value per share of 22,5% (14,2% in 2003)

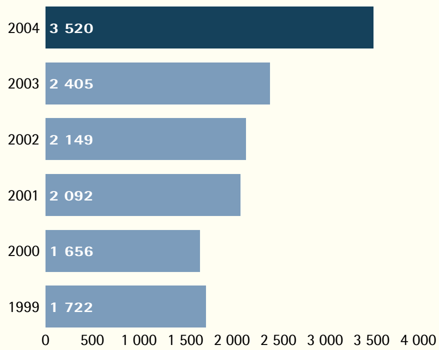
Embedded value of new Life business of R324 million – up 40%

New business embedded value margin up from 12,7% to 16,5%

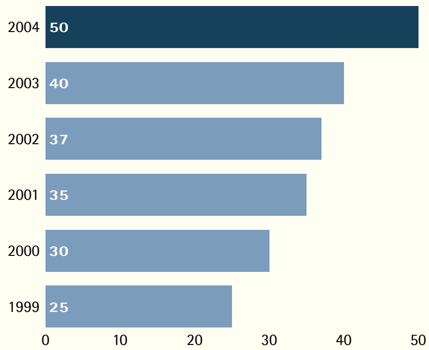
HEADLINE EARNINGS *in R million*



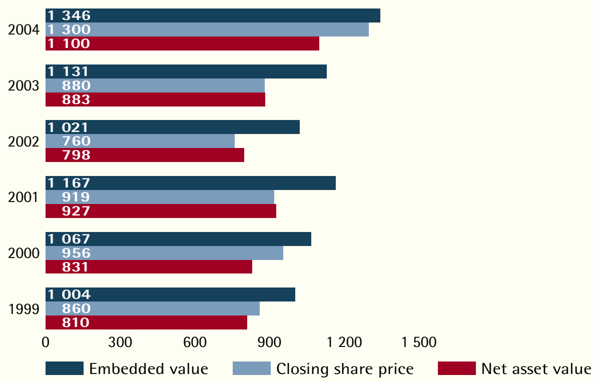
GROSS RESULT FROM OPERATIONS *in R million*



DIVIDEND PER SHARE *in cents*



VALUE OF SANLAM SHARES *in cents*



	2004 R million	2003 R million	2002 R million	2001 R million
Extracts from financial statements				
Result from operations before tax	3 520	2 405	2 149	2 092
Core earnings	3 340	2 641	2 280	2 628
Headline earnings	3 185	2 351	2 127	2 628
Headline earnings based on the LTRR	4 141	3 291	3 227	3 534
Shareholders' funds	27 642	21 687	20 651	22 231
Policy liabilities	162 226	134 079	129 329	145 248
Total assets under management	349 703	279 237	245 953	256 396
Net asset value per share (cents)[2]	1 100	883	798	927
New business embedded value	324	232	320	290
Embedded value per share (cents)	1 346	1 131	1 021	1 167
Group administration cost ratio (%)[3]	30,6	33,6	34,7	35,2
Group operating margin (%)[3]	23,3	17,5	16,9	18,4
New business				
Long-term insurance business				
Individual insurance	8 707	7 566	10 375	9 735
● Recurring premiums – indexed growth	619	643	564	558
– other	829	861	976	974
● Single premiums	5 700	4 506	7 033	6 009
● Continuations	1 559	1 556	1 802	2 194
Employee benefits	2 493	2 446	2 748	3 562
● Recurring premiums	140	127	156	171
● Single premiums – gross	2 429	2 384	2 618	3 466
– intergroup switches	(76)	(65)	(26)	(75)
Total long-term insurance business	11 200	10 012	13 123	13 297
Other business	48 652	28 774	19 134	23 284
● Linked products	6 068	5 103	4 199	3 450
● Segregated funds – Sanlam Investment Management	11 815	6 014	673	3 479
● Segregated funds – International	7 569	1 627	830	276
● SIM Multi-Manager	3 226	1 032	–	–
● Collective investments: Retail	6 779	4 370	4 388	4 908
● Collective investments: Wholesale	2 145	1 363	1 521	2 382
● Collective investments: White Label	3 331	2 510	1 975	3 482
● Short-term insurance	7 719	6 755	5 548	5 307
Total new business	59 852	38 786	32 257	36 581
Recurring premiums				
Long-term insurance business				
Individual insurance	8 010	7 268	8 634	8 336
Employee benefits	2 869	2 829	2 903	2 910
Total recurring premiums	10 879	10 097	11 537	11 246
Staff				
Office staff (excluding marketing staff) (number of persons)	8 575	9 570	9 716	10 024

[1] *Pro forma figures to reflect the demutualisation and restructuring of Sanlam in 1998.*
[2] *Shareholders' interest in subsidiaries adjusted from net asset value to fair value.*
[3] *Administration costs and result from operations (excluding Sanlam Life restructuring cost) as a percentage of income earned by the shareholders' funds less sales remuneration.*
[4] *Figures not readily available as the definition of new business was only introduced in 1999.*

2000 R million	1999 R million	1998 R million	1997[1] R million	1996[1] R million	1995[1] R million	Average annual growth rate %
1 656	1 722	1 237	1 026	1 070	1 079	14
2 406	1 955	—	—	—	—	11
2 406	1 955	—	—	—	—	10
3 495	2 721	—	—	—	—	9
19 012	18 075	14 904	10 172	9 005	7 182	16
133 952	134 319	114 176	119 506	114 647	107 839	5
224 911	215 924	176 792	166 382	147 969	135 984	11
831	810	630	528	466	376	13
240	101	57				
1 067	1 004	827				
32,3	29,8	27,8	—	—	—	—
16,5	17,9	12,9	—	—	—	—
9 795	7 704	6 319	7 743	6 733	7 244	2
525	527	500	500	425	385	5
1 149	749	830	1 039	1 301	1 366	(5)
5 881	4 804	3 107	5 458	4 376	4 862	2
2 240	1 624	1 882	746	631	631	11
4 399	2 633	5 247	5 154	3 503	2 252	1
219	139	137	—	[4]	[4]	—
4 180	2 494	5 110	5 154	3 503	2 252	1
—	—	—	—	—	—	—
14 194	10 337	11 566	12 897	10 236	9 496	2
23 506	15 473	18 280	12 214	8 757	5 978	26
1 687	1 706	1 423	431	—	—	46
7 973	2 310	4 498	5 519	4 666	2 714	18
—	—	—	—	—	—	202
—	—	—	—	—	—	213
9 342	8 154	8 266	2 957	1 164	890	25
—	—	—	—	—	—	(3)
—	—	—	—	—	—	(1)
4 504	3 303	4 093	3 307	2 927	2 374	14
37 700	25 810	29 846	25 111	18 993	15 474	16
8 455	8 344	8 496	8 354	7 781	6 961	2
3 050	3 029	2 740	3 000	2 958	2 579	1
11 505	11 373	11 236	11 354	10 739	9 540	1
9 709	10 159	11 669	12 756	12 635	12 406	(4)

- Our **rationalisation programme** is largely complete and we now have a more appropriate cost base and the optimal operating infrastructure to support growth.

The benefits of major cost cutting in Sanlam Life are evident in its operating results and the improvement in its average new business embedded value margin. The R250 million of annualised cost savings promised was delivered.

value enhancing service

- The **marked improvement in investment performance** from Sanlam Investment Management (SIM) remains core to Sanlam's recovery and future performance. Notably, SIM produced the top performing unit trust in South Africa for the second year running.

- Gensec Bank returned its banking licence and has been fully restructured into Sanlam Capital Markets (SCM), to focus on **complementary and value-enhancing services** to the Group.

- Sanlam Employee Benefits has been refocused and separated from Sanlam Individual Life. A new leadership team is in place and the head office has been established in Johannesburg.

- The **joint venture between Sanlam Individual Life and established player Citadel Holdings,** operating as Cambium Capital (Pty) Limited, provides a new pipeline for volume growth from the middle and affluent markets.

building partnerships

- A number of investments in empowerment partnerships, such as **Break-thru Financial Services and Safrican**, increase Sanlam's distribution reach and drive new business volumes in the entry-level market.

- Santam delivered its **strongest set of financial results ever,** with headline earnings more than double the amount for 2003.

- Sanlam Limited and Sanlam Life Insurance Limited obtained formal credit ratings from Fitch Ratings.

- Central to Sanlam's transformation strategy has been leveraging the transaction with **Ubuntu-Botho** which was concluded in 2004.

new brand development

- Sanlam's new brand has been researched and developed and will be implemented in 2005. **Client-centricity and customisation are key elements of the new Sanlam brand** for segmented target markets.

delivering to tough targets ...

We are aligning to our marketplace and delivering to tough targets

- Marked improvement in investment performance
- Cost base tackled and substantial savings realised
- Absa relationship enhancing distribution capability and boosting volumes
- Ringfenced and refocused Employee Benefits business
- Extensive effort to define Sanlam's vision and evolve a relevant brand positioning to take the Group into the future
- Unrelenting focus on client-centric solutions across a range of markets from entry-level to institutional.

Thinking ahead Sanlam

The uncertainties weighing down global markets abated sufficiently to whet investors' appetites for risk, and lifted interest in emerging markets.

I am pleased to report on a considerably improved performance in 2004, and the progress made in positioning the Group for sustainable profitable growth and enhanced shareholder returns.

In the year to December 2004, strong performances from all Sanlam's businesses were reflected in the Group's financial results. New business fund inflows for all Group operations amounted to R59,9 billion, an improvement of 54% on 2003. Net fund inflows of almost R16,6 billion are substantially higher than the R5 billion recorded in 2003. The embedded value of new life business written improved by 40% to R324 million. Headline earnings per share improved by 31% to 116,6 cents, while core earnings per share are up 22% due to an improved operational performance across the Group and, particularly, the favourable underwriting results of Santam.

MARKET ENVIRONMENT

Macro-economic overview

As indicated in the economic review, the South African economy fared well in 2004 in altogether more buoyant global market conditions. Importantly for South Africa, the uncertainties weighing down global markets abated sufficiently to whet investors' appetites for risk, and lifted interest in emerging markets. The benefit to South Africa was enhanced further by Moody's upgrade of South Africa's investment rating to "Baa1" from "Baa2".

After a generally lacklustre first half, local financial markets surged on the cut in the repo rate and the upward revision to GDP growth numbers. The buoyancy in financial markets was underpinned by a stronger performance from the real economy and household spending rose significantly to provide the main driver of economic growth.

ROY ANDERSEN Chairman

Industry overview

The life insurance industry is navigating a period of fundamental change. Client needs continue to evolve rapidly, and range widely from increasingly sophisticated clients wanting complex product options to entry-level clients needing simple and affordable products. The globalisation of the competitive environment and the widening array of alternative financial instruments has put acute pressure on life insurers to refresh their product and service offerings, to lower costs and improve policyholder returns.

In a climate of intensifying consumer activism, the expectations of a new generation of insurance buyers continue to escalate, demanding responsible product stewardship and complete transparency, particularly around cost structures. Locally, financial services providers also face the challenge of finding viable ways to extend financial services to lower income groups, both to seek sustainable growth and in line with the national transformation agenda.

Cost cutting and leveraging economies of scale to achieve the efficiency necessary for sustained cost competitiveness is an ongoing operational imperative. Bancassurance, as an efficient way of driving volumes and reducing the cost of distribution in particular markets, provides a successful model for a comprehensive and relevant financial services offering, supplementing the professional advice provided by intermediaries.

The equity market, as a key driver of earnings, embedded value and solvency levels, remains a primary driver of performance. The increase in statutory capital and reduced capital adequacy requirements (CAR), coming off the back of better equity market returns in 2004, has shifted attention to capital management as an important valuation criterion. Investors will continue to measure performance by the return achieved on embedded value and on capital employed.

In short, to stay in the game, life insurers are having to optimise and innovate at every level, to observe an increasingly intricate regulatory environment and demonstrate real commitment to corporate responsibility and national socio-economic development.

Although the industry is steadily aligning to these trends, it continues to come under fire from commentators citing weak returns and high costs. Some of these critics have touted the surrender of existing policies. In many cases this is, quite simply, very poor investment advice on a number of counts and most damaging to the policyholder, particularly in view of the progress being made by leading industry players to tackle costs and other investor concerns. This necessitates ongoing effort by the industry to educate existing and prospective policyholders and challenge negative misconceptions.

However fierce the competition and unprecedented the challenges, the South African market provides significant opportunities for new growth, given the relatively low penetration of savings and investment products and the untapped potential of emerging market segments. The addition of appropriate and efficient distribution capacity, and building reputational legitimacy to give access to these markets, is crucial to assurers' ability to command a strong competitive position and sustain profitable growth.

STRATEGIC POSITIONING

Over the past year, the board has interacted extensively with management to review and agree Sanlam's strategic direction.

Sanlam's strategy constitutes an effective response to the trends in its market environment and specific issues that have hindered its performance. The business has been stabilised and the cost base trimmed significantly. A delivery phase has been initialised in every business cluster. In particular, this has included improving investment performance, a rethink of Sanlam's banking and international strategies and completing the required restructuring, as well as implementing the bancassurance agreement with Absa.

The segmentation of Sanlam's target markets to inform the development of relevant products and services is ongoing. Considerable effort has gone into defining the Sanlam brand architecture to ensure relevance and address legacy issues. Sanlam seeks diversified market exposure and, besides a concerted push into the entry-level segment, is targeting defined opportunities with the potential to deliver growth off a low base, such as the middle and high net worth markets in Gauteng. Selective international opportunities with the potential to enhance profitability will also be considered as opportunities arise.

Sanlam has a clear distribution strategy and is making the necessary investments to grow conventional channels by developing broker capacity and building distribution capacity in new market areas. A number of acquisitions, detailed in the Group CEO's report, have been undertaken to this effect. The focus on achieving higher volumes out of the Absa relationship is ongoing.

Capital efficiency is a major focus point. Sanlam has too much "lazy" capital indicated by a CAR cover of 3,7. The board and management are committed to optimising Sanlam's capital base, to ensure sufficient financial strength and the efficient use of capital. Sanlam's capital utilisation strategy will primarily focus on investing in profitable structural growth opportunities that will support and complement the Group's strategy. Any excess capital will be returned to shareholders through the most efficient combination of capital distribution and share buy-backs. The monetisation of a portion of Sanlam's stake in Absa will lower capital concentration and is essential to effectively execute the capital strategy. The Barclays transaction, if concluded, will accelerate the implementation of this strategy.

Underlying all these efforts and providing significant competitive advantage is Sanlam's truly South African positioning. With the Ubuntu-Botho transaction approved, Sanlam is working at implementing the deal structure in a way that will best enhance sustainable value creation. The progress Sanlam is making in its internal transformation strategy, including a determined effort to advance Sanlam's employment equity (EE) profile to reflect the changing demographics of its markets, and the implementation of new affirmative procurement and corporate social investment strategies, are features of Sanlam's commitment to black economic empowerment (BEE). This commitment has provided the basis for many of the new distribution initiatives undertaken in the past year.

Sanlam's strategy constitutes an effective response to the trends in its market environment and specific issues that have hindered its performance.

HIV/Aids poses a significant risk to South Africa's development and is a major concern for foreign investors. The life insurance industry has moved to come to terms with the wide-reaching and protracted effects of the pandemic, with the Life Offices' Association (LOA) ban on all Aids exclusions for new business coming into effect in January 2005. Sanlam stopped using exclusions on all major product ranges as far back as 1996. Sanlam Life has set up a specific provision for HIV/Aids related claims, with the reserve amounting to R2 377 million on 31 December 2004. Sanlam seeks to limit HIV/Aids risk by charging adjustable risk premiums that take account of such risk, and by limiting the sum assured. Sanlam Life has introduced certain products that do not require HIV testing, notably Sanlam Life's Funeral Help Plan policy.

Sanlam will continue to focus on understanding and reporting the pandemic's impact on its marketplace, while investing in managing it in the workplace and in broader society.

In essence, Sanlam's strategy centres on positioning the Group for sustainable profitable growth and long-term value creation. It is based on a thorough understanding of the world in which we do business and the role business is expected to play in the modern context – a context where markets and societies are fundamentally interconnected. As such, Sanlam will continue to measure its performance against not only the financial bottom line but also the triple bottom line (economic, social and environmental impacts), as the benchmark for sustainable development.

Sanlam's strategy is to succeed on home ground and be recognised as an influential corporate citizen driving the long-term success of the country and, increasingly, the African continent. Congruently, this means responding fully and proactively to national objectives and policy, including significant investment in social development. Sanlam is committed to respond to the challenges and opportunities of being a truly South African company with integrity and responsibility, applying best practice at all levels and seeking to improve continually.

It is clear that this level of commitment is the only way to sustain profitable growth.

REGULATORY ENVIRONMENT

Corporate governance

Sanlam is committed to complying fully with the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance (King II), but seeks to employ this framework in a way that allows for flexibility and entrepreneurial activity. Directors continually consider the implications of national and international corporate governance best practice and are of the opinion that Sanlam complies with the requirements of King II in all material respects. This was confirmed by a comprehensive analysis of corporate governance standards and practices throughout the Group, which was conducted internally and by an independent service provider. The findings showed material compliance. Those areas requiring attention have been, or are still being, addressed.

The board has recently approved a revised Board Charter to regulate the way business is conducted by the board in accordance with the principles of sound corporate governance. The charter, which is modelled on the charter principles recommended by King II, incorporates the powers of the board, a clear division of responsibilities and accountabilities of the board members to ensure a balance of power and authority. An annual self-evaluation process to review the effectiveness of the board, its committees and individual directors has also been implemented.

The board recognises that its effectiveness depends largely on its balanced structure and design, and the findings of the board review is informing the restructuring of its committees to reflect the most appropriate structures required to support effective oversight and guidance. All the board committee charters have recently been reviewed and are in the process of being implemented.

Board changes

A number of appointments were made in 2004 to strengthen and diversify the board further and to ensure the right mix of expertise and experience.

According to the terms of the Ubuntu-Botho transaction, Patrice Motsepe, the chairman of Ubuntu-Botho Investments, was appointed as a non-executive director and deputy chairman of the board. Ubuntu-Botho's two other nominees, Rejoice Vakashile Simelane, chief executive of Ubuntu-Botho Investments, and Bernard Swanepoel, chief executive of Harmony Gold Mining Company Limited, were appointed as non-executive directors.

The number of directors was increased from 16 to 18, with the appointment of Maria Ramos, group CEO of Transnet, and Valli Moosa, director of companies, as independent non-executive directors.

I took over from Ton Vosloo as non-executive chairman of the board in June 2004.

Financial Advisory and Intermediary Services

The Financial Advisory and Intermediary Services (FAIS) Act, which aims to protect clients from inappropriate financial advice by setting minimum standards for financial advisory and intermediary services, was implemented in 2004. Sanlam endorses the FAIS Act but is cognisant that it alone will not protect clients from poor quality advice. Sanlam encourages its clients to use the Act in their best interests and to base their investment choices on their own risk profile and proper consideration of a range of products before deciding on how their specific needs are best serviced.

Financial Sector Charter

The progressive alignment of Sanlam's internal transformation efforts with the framework of targets and timelines set by the Financial Sector Charter (FSC) is proceeding well. Despite the ongoing refinement of scoring methods around key issues such as empowerment financing and broadening access to financial services, Sanlam's contribution to BEE is demonstrable and it is on track to be highly rated when the industry publishes its first scorecards later in 2005.

DIVIDEND

Sanlam's philosophy to date has been to maintain a smoothed dividend growth pattern. This implies that the dividend will not necessarily follow the annual earnings pattern. The sound earnings performance and Sanlam's strong capital position enabled the lifting of the overall level of the dividend in respect of 2004. The intention is to revert to a smoothed real dividend growth pattern from this new base.

The board declared a dividend of 50 cents per share payable on 18 May 2005 to shareholders recorded in the register on 22 April 2005. This represents an increase of 25% over the 40 cents per share dividend declared in respect of 2003.

The last date of trade to qualify for this dividend will be 15 April 2005 and shares will trade ex div from 18 April 2005.

PROSPECTS

The challenge for the South African economy is to sustain higher growth rates, to effect meaningful poverty alleviation and support wide-reaching socio-economic development. Although there is good cause for cautious optimism at this stage, downside risk still exists in the ability of the economy to create jobs at a faster pace, and the management of the escalating and pervasive impact of HIV/Aids on business and society.

Capital management will be a key focus point for Sanlam in 2005, while equity market performance and interest rate levels will continue to be key drivers of earnings and embedded value growth. Sanlam will concentrate on delivering shareholder value through an appropriate combination of structural and organic growth, and the return of any excess capital to shareholders. Its investment in systems and people development will be increased to support sustainable, profitable growth. Sanlam will continue to work hard to strengthen its position as a truly South African company and an influential corporate citizen, while leveraging its credibility in this regard to penetrate new growth markets.

In my view, Sanlam is "back in the game". It is more competitive, more dynamic and more agile. Innovation is more of a feature at Sanlam and is taking place in the many areas in which the organisation is involved as a powerful force in the South African economy. There is a new attitude permeating the Group and this positive sentiment is gathering momentum and driving improved performance. A new image of Sanlam is emerging as external perceptions of Sanlam change. It is our responsibility to ensure, in all our respective roles, that this is translated into business performance and social progress.

APPRECIATION

On behalf of the board, I extend sincere thanks to my predecessor, Ton Vosloo, for his stewardship over a long-standing association with Sanlam. Ton was appointed as a director in 1989 and became chairman of the board in 2002. His contribution to Sanlam's development has been extensive and is greatly appreciated.

Johan van Zyl and his management team have again proven their ability to deliver on tough objectives, with the necessary insight and integrity. The board congratulates the team for another excellent performance.

The people of Sanlam have shown their mettle in the face of substantive change. This level of dedication and commitment augurs well for continual improvement in the years ahead and deserves the board's deepest gratitude.

Our thanks go to our intermediaries for their support and for providing the access and market knowledge so valuable to the growth of our business.

I would particularly like to thank our policyholders and investors for their support.

I am pleased to be involved with Sanlam in a time of substantive repositioning and vibrant industry development. I look forward to the challenges of the next few years and wish to assure stakeholders of the board's commitment to the highest standards of governance and responsibility on the road to sustainable profitability and value creation.

ROY ANDERSEN
Chairman



1 2 3 4 5 6 7 8 9

NON-EXECUTIVE DIRECTORS

ROY ANDERSEN *(Chairman)* **(1)**
Appointed: 2004
Other directorships: Murray & Roberts, Virgin Active South Africa

PATRICE MOTSEPE *(Deputy Chairman)* **(2)**
Appointed: 2004
Other directorships: African Rainbow Minerals, Harmony, Ubuntu-Botho, Absa

MANANA BAKANE-TUOANE (5)
Appointed: 2004
Other directorships: African Rainbow Minerals

DAVE BRINK (4)
Appointed: 1998
Other directorships: Absa, Sappi, Unitrans, BHP Billiton Ltd & plc

ATTIE DU PLESSIS (7)
Appointed: 2002
Other directorships: Absa, Gencor, KWV

FRAN DU PLESSIS (11)
Appointed: 2004
Other directorships: KWV International, Naspers, IDC

WILMOT JAMES (8)
Appointed: 2004
Other directorships: Media 24, Via Africa

VUSI KHANYILE (13)
Appointed: 2002
Other directorships: Thebe Investments, Safrican Insurance Company

CARMEN MAYNARD (9)
Appointed: 2001
Other directorships: Trans Caledon Tunnel Authority

VALLI MOOSA (12)
Appointed: 2004
Other directorships: Lereko Investments, Thebe Investments, SAA, Sterling Waterford

MARIA RAMOS (17)
Appointed: 2004
Other directorships: Transnet

GEORGE RUDMAN (10)
Appointed: 2001
Other directorships: Santam



10 11 12 13 14 15 16 17 18

NON-EXECUTIVE DIRECTORS

REJOICE SIMELANE (14)
Appointed: 2004
Other directorships: African Rainbow Minerals, Ubuntu-Botho

BERNARD SWANEPOEL (16)
Appointed: 2004
Other directorships: Harmony, African Rainbow Minerals

EUGENE VAN AS (18)
Appointed: 2003
Other directorships: Sappi

BOETIE VAN ZYL *(Lead Director)* **(6)**
Appointed: 1998
Other directorships: Murray & Roberts, Naspers

EXECUTIVE DIRECTORS

JOHAN VAN ZYL *(Chief Executive Officer)* **(3)**
Appointed: 2001
Appointed as CEO: 2003
Other directorships: Santam, Absa

FLIP RADEMEYER *(Financial Director)* **(15)**
Appointed: 2001
Other directorships: Santam

We envision Sanlam as a world-class, truly South African financial services group, consistently delivering attractive returns and playing a significant role in driving local progress.

CLEAR VISION

These are defining times for the life insurance industry. Facing contracting margins and declining revenue streams, changing market preferences and global competition, it has become imperative to adapt quickly to stay competitive and relevant.

The current wide-reaching transformation of the Sanlam group, the intricate process of positioning the business for sustainable profitability and value creation in a challenging environment, commenced in May 2003. We have covered a lot of ground since.

Sanlam's transformation is guided by a clear vision for the future. We envision Sanlam as a world-class, truly South African financial services group, consistently delivering attractive returns and playing a significant role in driving local progress.

Our strategy centres on three inter-related imperatives:

- Focusing and optimising operations in view of tough conditions.
- Growing efficiently by servicing traditional markets more effectively and moving into fertile new market areas.
- Investing insightfully and proactively in national socio-economic development and marketplace sustainability.

This is a longer-term journey. We underestimate neither the challenges of an intensely competitive and fluid business environment, nor the complexity of significant internal transformation. We have plotted our course knowing that sustainable profitable growth demands strategic and operational agility, and a demonstrable commitment to corporate responsibility.

The real advances made across the Group in 2004 justify my confidence that Sanlam is well on track. It has the leadership and teams in place in all its businesses, with the capability

JOHAN VAN ZYL Group chief executive

and understanding to manage the risks and capitalise fully on the many opportunities of a highly dynamic marketplace.

IMPROVING PERFORMANCE

In the year to December 2004, we delivered to tough targets and the benefits of our wide-reaching initiatives started to flow through to the Group's financial and operational performance more strongly.

STRATEGIC DELIVERY

We have followed through in our "back to basics" drive, tackling the systemic factors undermining the Group's performance.

The alignment of products and services to evolving customer needs in traditional and new markets is fundamental to profitable growth. Sustained product relevance and service quality are necessary to counter competition from an array of new offerings, and push back the perceptions of outmoded products that have dogged the industry. We have concentrated on becoming a more client-centric organisation, particularly in the development of new products and services, and improving our service interface through various initiatives such as comprehensive broker and advisor training.

In 2004, extensive market research and segmentation were undertaken to develop Sanlam's new brand, which will be launched in 2005. Client centricity and customisation are key elements of the new Sanlam brand for segmented target markets.

Greater efficiency is key to competing effectively in a lower inflation environment. We have tackled cost structures across the Group, particularly in the Life Insurance cluster. With rationalisation largely complete, we now have a more appropriate cost base and the optimal operating infrastructure to support growth. Benefits from the major cost-cutting exercise in Sanlam Life are evident in its operating results and the improvement on its new business embedded value margin. The R250 million of annualised cost savings promised, was delivered in 2004.

The marked improvement in investment performance from Sanlam Investment Management (SIM) remains core to Sanlam's recovery and future performance. SIM posted strong growth in gross and net fund inflows in 2004 and has continued the trend of improved investment performance. Notably, SIM produced the top performing unit trust in South Africa for the second year running. Although stronger equity market returns over the year underpinned this performance, the overhaul of the investment process and the attraction and retention of well-respected investment professionals at SIM have provided a solid base for consistent, competitive investment performance going forward.

Other operational concerns that were successfully dealt with included the restructuring of some of Sanlam's UK operations into Sanlam Financial Services UK and Sanlam Multi-

Manager International, which made a welcome return to profitability during the period. Gensec Bank returned its banking licence in June 2004 and has been fully restructured into Sanlam Capital Markets (SCM), to focus on complementary and value-enhancing services to the Group. SCM has made good progress extracting synergies within the Group and its maiden results for the year are in line with our expectations.

Our Employee Benefits business has been refocused and separated from the Sanlam Individual Life business, and a new leadership team is in place. The business relocated to our Johannesburg office, launched during the year. The focus has been to establish a sound operating base from which to drive new growth and stem the loss of market share. Sanlam's empowerment strategy has unlocked new opportunities for this business in various market segments including organised labour, parastatals, corporates and SMEs.

Distribution capability is critical to finding ways to boost new business volumes. "Bancassurance", as a cost-effective way to distribute and cross-sell savings, investment and insurance products, is a function of this imperative. Our co-operation agreement with Absa continues to develop steadily at all levels, evidenced by improved mutual support of products and services, and the early success of Sanlam Home Loans.

With the recovery phase of our strategy largely complete, we have been cognisant of the pressing need to address Sanlam's excess capital and its utilisation.

The success of the bancassurance model is certainly not reliant on holding shares in the banking partner, but rather on developing sound business relationships. The potential sale of a portion of Sanlam's investment in Absa will enhance our ability to improve our capital efficiency and release capital to be deployed in a way that creates most value. We believe this necessitates a balanced approach with capital being earmarked for investment in profitable opportunities in identified growth areas, both locally and internationally, and returning excess capital to shareholders. Irrespective of the outcome of the Barclays offer, we remain committed to optimise the Group's capital structure to ensure the financial flexibility necessary to deliver long-term shareholder value.

The local financial services industry is in the fortunate position of seeing significant growth potential in new markets, but this potential is not easily unlocked given the challenges of access, distribution and brand legitimacy.

To mitigate the negative pressure on traditional revenue streams in future, we continue to pursue profitable opportunities that give us a credible interface and efficient distribution capability in these new markets. This includes the entry-level and emerging black middle markets, and areas where we have been under-represented historically, like the high net worth segment and the Gauteng market.

Over the year, we launched a number of initiatives to diversify our revenue base and put additional distribution channels in place. Our investments in this regard are subject to strict parameters: they must enable us to leverage existing competencies into new areas for the highest return, and to build balanced market exposure.

Sanlam is focused on the following key growth areas, identified through a detailed analysis of Sanlam's market positioning and penetration.

Entry-level market

Our strategy in this important market segment is to invest in multiple client-facing units or brands with established positions, to provide distribution reach and drive new business volumes. We have also doubled the capacity of our Group Solutions channel, which was established specifically to focus on this market segment.

In December 2004 Sanlam Life acquired a 55% interest in Thebe Investment Corporation's life assurance company, Safrican. One of the oldest and most established brands in the entry-level market, it has over R240 million in annual premiums, almost two million insured members and 600 brokers. Part of Safrican's distribution activities have been consolidated into a new entity called Thebe Community Financial Services (TCFS), to expand Thebe's offering to the entry-level market. Sanlam Life has an interest of 30% in TCFS.

Client centricity and customisation are key elements of the new Sanlam brand for segmented target markets.

Middle and affluent markets

Our new initiatives have focused on positioning Sanlam more strongly in the black middle market, high net worth segments and the Gauteng market. We are in the process of enhancing the demographic profile of advisors to better reflect our target market segments.

The joint venture between Sanlam Life and established player Citadel Holdings, operating as Cambium, provides a new pipeline for volume growth. Cambium has a robust investment and client service solution supported by good systems and a highly professional approach. Cambium operates in Johannesburg and Cape Town, with plans to expand into other areas.

Sanlam Home Loans, the joint venture with Absa, in which ownership, risk and profit are shared equally, became operational in May 2004. Sanlam Home Loans is offering Sanlam clients preferential rates for home loans normally available only to the high-income market. These rates are being made available to the middle market, an important target segment for Sanlam, through innovative funding structures and low operating costs.

Sanlam also succeeded in increasing its market share of Absa Brokers' volumes in 2004.

Employee benefits

Sanlam Consulting Actuaries was split out of Sanlam Life to create an independent black-owned consulting business focusing on the corporate employee benefits market.

Sanlam will reduce its 100% stake as appropriate as the business develops. Also, an agreement with Simeka, an actuarial, employee benefits and healthcare consulting business in which Sanlam has taken a 35% stake, will see most of its investment and risk business, and employee benefits administration, directed to the Group.

Further deals include the Independent Financial Services cluster subscribing for preference shares in SA Quantum, with an option to covert these to a 25% equity stake over the next two years. This is an actuarial and employee benefit consulting business that will boost employee benefits business flows. Similarly, the joint venture with Basebenzi, the investment arm of the Food and Allied Workers' Union, namely Break-thru Financial Services, will drive volumes in this business.

The pleasing results achieved by Merchant Investors Assurance (MIA), in which Sanlam took management control in 2004, points to our strategy of investing selectively in profitable international opportunities.

The migration of MIA funds to Sanlam Multi-Managers International, a wholly-owned subsidiary responsible for SIM's international investment management, represents an example of how synergies between different businesses in the Group are being successfully leveraged.

An indication of how far Sanlam has come in a short time is that most of the new initiatives put in place in 2004 were contingent on the Group's commitment to black economic empowerment (BEE). As a truly South African company, the basis for Sanlam's long-term success is its empowerment performance. Sanlam's commitment to playing an active role at every level of transformation, from policy development to poverty alleviation, is demonstrated by the progress we have made across all the dimensions of BEE.

Central to Sanlam's transformation strategy has been the transaction with Ubuntu-Botho. The importance of the transaction to Sanlam's future merits careful implementation of the deal structure and prudence in determining the strategic suitability of the members of the broad-based consortium. The leadership of Ubuntu-Botho have indicated that certain of Sanlam's black staff groupings will be invited to participate in the consortium.

Internally, the integration of Ubuntu-Botho into the Group and the identification of synergies at cluster level continues. We are investing the necessary time and focus to ensure structures and methodologies are most efficient, and support the extraction of tangible and sustainable business value. Regional structures, the Sanlam Provincial Advisory Boards, have been set up to serve as the main interface with the broad-based shareholder groups and to drive the delivery of measurable new business over time.

Sanlam is well placed to make a significant contribution to economic development through empowerment financing, an important Financial Sector Charter (FSC) requirement. Although Sanlam continues to be active in various aspects of BEE financing, many of the specifics implied by the FSC requirements have yet to be agreed, a process in which we are actively involved. In the interim, we have focused on establishing the working mechanisms to address all aspects of empowerment financing and to direct spending in a co-ordinated way.

Sanlam has thrown its weight behind the process of broadening access to financial services being followed by the Life Offices' Association (LOA), and is playing an active role in finalising FSC targets in this regard. Sanlam is also involved in all the LOA's other initiatives. With set targets pending, we have focused on examining our internal structures and operating models, and how these can be most effectively developed to align fully with the LOA's objectives.

Sanlam has always understood the importance of investing in the communities it serves – a logical function of developing a sustainable marketplace. Sanlam's approach is to invest in an intelligent and informed way, not only providing funding but also employing its skills to effect positive social change. Sanlam's corporate social investment (CSI) function, which is now co-ordinated at group level, has been streamlined and a new executive is in place to direct our extensive social investment initiatives and partnerships. In the future, these efforts will be supplemented by the Sanlam Ubuntu-Botho Community Development Trust, which will focus on community infrastructure development. The Trust will come into operation once the loans of Ubuntu-Botho have been repaid.

The immediate challenge is to leverage our improved positioning into increased new business inflows and market share gains.

At a fundamental level, our progress to date and our ability to maintain it, depend on best practice human resource and business culture development, and the considered management of business transformation. The role of Group Human Resources (HR) and its strategy was refined over the year to better support the delivery of strategic objectives. We believe the most appropriate model for this critical function is to operate as a small, specialist provider of consulting services to group management and the business clusters. The clusters are in turn encouraged to collaborate and share systems where appropriate and cost effective. Group HR is mandated to manage certain programmes where centralised planning and co-ordination makes sense, such as the Group's employment equity and skills development and training compliance, and its HIV/Aids strategy.

The strong results achieved in an internationally benchmarked study of Sanlam's human resources performance are notable and confirm the positive shift taking place within Sanlam. It is this internal momentum that will enable us to continue delivering on our strategy going forward.

LOOKING AHEAD

We have moved forward significantly since we announced our "back to basics" strategy in May 2003. For the most part, the recovery phase of our turnaround strategy is now complete. The extensive cost-cutting and restructuring undertaken has positioned the Group to deliver against the challenges facing the industry, and Sanlam in particular. Although the process of optimising our operating base is iterative and ongoing, each of the clusters now has a strong foundation upon which to build profitable and diversified revenue sources. We will be guided in this instance by the need to balance our risk profile while increasing our exposure to growth markets aggressively.

We will continue to work closely with Absa to broaden our existing product offering, explore cross-selling opportunities and drive a greater share of Absa Brokers' volumes.

We will continue to concentrate on finding the most effective ways to unlock and return value to shareholders, while investing in those areas with the greatest potential to deliver sustainable profitable growth. In particular, we will focus on further improving distribution reach, redeploying the Group's "lazy" capital and establishing Sanlam's new brand architecture.

We will continue to give substance to our truly South African positioning, across all the dimensions of black economic empowerment. The integration of the Ubuntu-Botho consortium into the working life of the Group will continue steadily, informed by the need to convert potential into new business inflows. Our investment in the development of our people and our operating systems will be a feature of the year ahead, as will our investment in positive socio-economic progress on a wide front.

Our strategy and its execution has delivered good results in 2004, which have been enhanced by strong equity markets and the exceptionally favourable underwriting cycle that supported the Santam results. Sanlam is set to deliver shareholder value through its distribution initiatives and operational and capital efficiencies.

The immediate challenge is to leverage our improved positioning into increased new business inflows and market share gains.

Substantive organisational change is never easy. It takes great sensitivity, greater resilience and unrelenting drive. The distance we have covered in a short time is reflective of these qualities in the greater Sanlam family.

Our vision is clear, and we know we have what it takes to realise it.

JOHAN VAN ZYL
Group Chief Executive

JOHAN VAN ZYL
Group chief executive

Appointed to Exco: 2001
and as Group chief executive:
March 2003

Executive director: Sanlam Limited

Chairman: Sanlam Life and Sanlam Investment Management

PhD, DSc (Agric)

NICK CHRISTODOULOU
Chief executive: Independent Financial Services

Appointed to Exco: 1996

BSc Eng (Ind), MBA

THEMBA GAMEDZE
Chief executive: Sanlam Employee Benefits

Appointed to Exco: 2004

BA (Hons), MSc, FIA, FASSA

STEFFEN GILBERT
Chief executive: Santam

Appointed to Exco: 2003

FIA, FASSA

MARGARET JENKS
Chief executive: Group marketing and communications

Appointed to Exco: 2003

BA (Hons), BSc (Hons), Master in Management (Wits)

LIZÉ LAMBRECHTS
Chief executive: Sanlam Individual Life

Appointed to Exco: 2002

BSc (Hons), FIA

KOBUS MÖLLER
Chief executive: Finance

Appointed to Exco: 2003

CA (SA), AMP (Harvard)

TEMBA MVUSI
Chief executive: Group Services

Appointed to Exco: 2004

BA, ELP (Warton School of Business), MAP (Wits), PDP (UCT)

FLIP RADEMEYER
Financial director

Appointed to Exco: 1998

Executive director: Sanlam Limited

Chairman: Sanlam Capital Markets

CA (SA), SEP (Stanford)

CHRIS SWANEPOEL
Chief actuary

Appointed to Exco: 1998

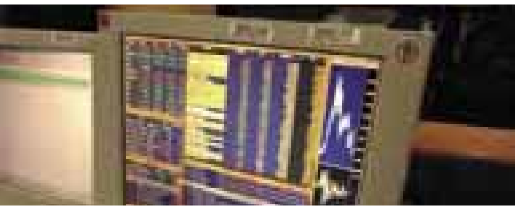
BSc (Hons), FIA, FASSA

JOHAN VAN DER MERWE
Chief executive: Sanlam Investment Management

Appointed to Exco: 2002

MCom, M.Phil, CA (SA)

focused on improving returns ...



We are focused on profitable growth and improving returns

- Targeting profitable opportunities identified through comprehensive market research and segmentation, including:
  - Retail market – entry-level, middle and affluent segments
  - Employee Benefits
  - Bancassurance
  - Geographic spread – Gauteng focus
  - Selective international opportunities
- Pursuing value-accretive deals to access new markets – a number of new distribution initiatives in place
- Committed to optimising capital efficiency and returning excess capital to shareholders

Thinking ahead Sanlam

We have made strong progress in 2004, reflected in improved financial results across the Group.

OVERVIEW OF RESULTS

Sanlam achieved strong overall results in 2004. Headline earnings per share improved by 31% to 116,6 cents while core earnings per share improved by 22%. New business fund inflows for all Group operations amounted to R59,9 billion, an improvement of 54% on 2003. Net fund inflows of almost R16,6 billion are substantially higher than the R5 billion recorded in 2003. The embedded value of new life business written improved by 40% to R324 million.

The Sanlam share price improved from 880 cents per share on 1 January 2004 to 1 300 cents per share by the end of December 2004, which, including the annual dividend of 40 cents per share paid during the year, provided shareholders a return of 52% over the period. Over the same period Sanlam achieved a return on embedded value per share of 22,5%. The Sanlam share price discount to embedded value (of 1 346 cents per share), amounted to only 3,4% on 31 December 2004, compared with 22% in December 2003. The decreasing gap in the discount to embedded value reflects a welcome re-rating of Sanlam by the investment community.

FLIP RADEMEYER

Financial director

Group Finance Management

FLIP RADEMEYER	Financial director

Finance

KOBUS MÖLLER	Chief executive
ML CARSTENS	Group reporting
DANIE CLAASSEN	Tax services
HELET MALHERBE	Investor relations
JEANNE MASSON	Corporate finance

Company secretary

JOHAN BESTER

Actuarial and risk

CHRIS SWANEPOEL	Chief actuary
SIAS DE KOCK	Risk management
JACQUES MARNEWICKE	Forensic

Chief economist

JAC LAUBSCHER

EARNINGS

Headline earnings

R million	2004	2003	∆%
Net result from operations	1 968	1 402	40
Result from operations before tax	3 520	2 405	46
Taxation	(1 032)	(724)	(43)
Minorities	(520)	(279)	(86)
Net investment income	1 372	1 239	11
Net equity-accounted earnings	969	781	24
Net dividend, interest and rental income	403	458	(12)
Core earnings	3 340	2 641	26
Financial assistance to policyholder funds	–	(290)	
Net loss on derivatives	(155)	–	
Headline earnings	3 185	2 351	35
Cents per share			
Core earnings	122,3	100,2	22
Headline earnings	116,6	89,2	31

Headline earnings of R3 185 million for the year are up 35% on 2003. Core earnings of R3 340 million, are up by 26%. This excludes the once-off or abnormal effect of financial assistance provided to the policyholders' funds in 2003 and the impact of derivative instruments held in the shareholders' capital portfolio. Growth in headline and core earnings per share is lower at 31% and 22% respectively. This is largely due to the dilution effect of the new Sanlam shares issued to Ubunto-Botho Investments as part of the black empowerment transaction completed earlier in 2004. Detail on the increase in the weighted number of shares in issue is provided on page 53.

The exceptional growth in earnings is largely the result of strong growth in **operating income** from all major Group operations, with result from operations before tax improving by 46% on 2003. Santam delivered another outstanding performance, which was complemented by sterling performances from Sanlam Individual Life, the Investment cluster, Sanlam Financial Services (UK) and Sanlam Capital Markets. After accounting for taxation and the Santam minorities' share of income, net operating income is up 40% on 2003.

Total **investment income** earned on the Sanlam shareholder funds' discretionary investment portfolio increased by 11%. Equity-accounted income rose by 24% to

R969 million. This mainly represents Sanlam shareholders' funds' proportionate share of Absa's headline earnings for the twelve months to September 2004. This period coincides with Absa's reporting cycle, and reflects Absa's strong operating performance over the period. Net dividend, rental and interest earned were down 12% on 2003. The reduction is partly due to lower prevailing interest rates. In terms of current accounting standards and Sanlam's election during the implementation of AC133, any changes in the market value of these investments are excluded from headline earnings.

In 2002 and 2003 a prudent valuation of the financial position of the Participating Annuity Portfolio in terms of prevailing actuarial guidelines, indicated the need to bolster the funding level of the portfolio. In addition, it was decided in 2003 to support the Monthly Bonus Fund with R100 million in view of this portfolio's relatively low funding level at the time. Full provision was made for this assistance against the investment return of the shareholders' fund. During 2004 the position of the Monthly Bonus Fund improved to such an extent that support was no longer required and it was decided to utilise the R100 million to increase the support for the Participating Annuity Portfolio. The possible repayment of the support will be determined by the future investment performance of the underlying assets. It will be reviewed on a regular basis, but at present any repayment does not seem likely.

The net fair value adjustment of the hedges in place against adverse market movements in respect of Sanlam shareholder funds' discretionary investment portfolio at 31 December 2004 amounted to a loss of R155 million – reflecting the strong growth in equity markets towards the end of 2004. The value adjustment required in respect of hedging structures in place in 2003 was minimal and was not disclosed separately in the 2003 results. The accounting treatment of these derivative instruments is set out on page 52.

Earnings per share based on a **long-term rate of return (LTRR)** improved by 21% from 124,9 cents per share in 2003 to 151,6 cents per share in the current period. LTRR adjusted earnings comprise net operating income and an assumed overall investment return on the Sanlam shareholders' funds' discretionary investment portfolio. The latter includes actual equity-accounted income and an estimated smoothed level of capital appreciation, dividend, rental and interest income, based on an expected long-term investment return yield. An expected yield of 11% before taxation was used in 2004, based on current long-term interest rates. This is 1% lower than the 12% yield used in 2003. (A further yield reduction of 1% will be made in 2005.) There is a cumulative shortfall in the actual performance compared with the LTRR earnings for the period since the first reported LTRR earnings in 1999, amounting to R345 million.

R million	2004	2003	Δ%
Net result from operations	1 968	1 402	40
LTRR investment return	2 173	1 889	15
LTRR adjusted earnings	4 141	3 291	26
Earnings per share (cps)	151,6	124,9	21

Attributable earnings

R million	2004	2003	Δ%
Headline earnings	3 185	2 351	35
Retrenchment and closure cost	(18)	(77)	77
Profit on sale of subsidiary	58	–	
Realised investment surpluses	642	134	
Goodwill and investment impairments	(256)	(248)	(3)
Goodwill amortised	(328)	(277)	(18)
Attributable earnings	3 283	1 883	74
Cents per share	120,2	71,5	68

The Group has benefited from unusually high underwriting margins in the short-term insurance industry, the major cost-cutting exercise in the Life Insurance cluster and outstanding equity market performance.

Attributable earnings for 2004 of R3,3 billion are 74% higher than the R1,9 billion in 2003. In terms of Sanlam's accounting policy, attributable earnings comprise headline earnings and realised capital gains from the Sanlam shareholders' discretionary capital portfolio, net of the amortisation of goodwill and any specific requirement for the impairment of strategic investments. Unrealised gains or losses in the portfolio are not accounted for in the income statement but transferred directly to equity.

The restructuring of Gensec Bank during 2003 resulted in the formal closure of certain parts of its business. In finalising the termination of these businesses further expenditure of R18 million was incurred in 2004 (R77 million in 2003). This mainly includes expected future losses on a property lease contract in Dublin as required by the accounting standard on onerous contracts, and some retrenchment and staff-related costs, which are excluded from headline earnings in terms of ruling accounting practice.

The reported earnings include R642 million net realised investment surpluses on the sale of investments in the capital portfolio. In addition, the sale of the investment administrator Tasc, a 65% stake in Gensec Property Services and a 29% stake in Sanlam Investment Management Namibia yielded a net profit of R58 million after allowing for taxation and transaction related costs. Net unrealised capital gains amounted to R3,6 billion for 2004.

Goodwill raised on the acquisition of strategic investments is capitalised and where applicable, amortised over periods of up to 10 years. The consolidated amortisation charge for 2004 amounted to R328 million. This represents an increase of 18% on 2003, largely due to additional goodwill that resulted from the acquisition of Merchant Investors Assurance (MIA). Goodwill at the end of 2004 amounted to R1,9 billion.

The carrying value of strategic Group investments is reviewed on a regular basis and impairment considered where appropriate. At the end of December 2004, an indicated value shortfall of R210 million was identified in respect of Sanlam's exposure to the Safair Lease Finance (SLF) joint venture. The valuation of the venture takes account of its major unhedged exposure to the residual value of its aeroplanes, which is denominated in US dollars. The additional write down is mainly due to the continued strengthening of the rand relative to the US dollar and a comprehensive review of the expected cash flows and residual values over the lease periods. The residual carrying value of Sanlam's equity investment and shareholder loans as at 31 December 2004 (R368 million) is set at a level that will yield an appropriate risk adjusted return over the remaining life of the venture.

Dividend

The board declared a dividend of 50 cents per share in respect of 2004. This represents an increase of 25% over the 40 cents per share in respect of 2003.

The sound earnings performance and Sanlam's strong capital position enabled the lifting of the overall level of the dividend. The intention is to revert to a smoothed real dividend growth pattern from this new base.

The dividend is covered 1,66 times by cash core earnings and 1,23 times by cash operating earnings. Cash operating earnings represents the after tax operating profit from Group operations in a specific year, excluding any earnings retained by those operations (eg Santam) in respect of that year. Cash core earnings represents cash operating earnings plus the net after tax investment income (interest, rentals and dividends) received during the year on the discretionary capital portfolio (including dividends from Absa). The board intends to use these two counters as benchmarks in setting the level of future dividends.

OPERATIONAL PERFORMANCE

This report provides an overview of the Group's operational results. Detailed reviews that cover the operational performance of the different Group businesses are provided from page 108.

Business volumes

New business flows

Overall new business inflows for the Group improved by 54% to R59,9 billion. This is the combined result of an 86% improvement in gross investment related inflows and satisfactory growth overall in new Life business flows and short-term insurance premiums.

R million	2004	2003	∆%
New business			
Life business	11 200	10 012	12
Individual single	7 259	6 062	20
Individual recurring	1 448	1 504	(4)
Employee benefits	2 493	2 446	2
Investment	40 933	22 019	86
Short-term insurance	7 719	6 755	14
New business inflows	59 852	38 786	54

Total new **investment inflows** improved by 86% to R40,9 billion. Operations in the Investment cluster performed exceptionally well by attracting new investment flows of R27,6 billion. New wholesale third party investment mandates for the year amounted to R8,7 billion, compared with R5 billion in 2003 and only R0,4 billion in 2002. Net new mandates totalled R3 billion (R0,3 billion in 2003). Sanlam Collective Investments achieved R11 billion in new inflows, 40% more than in 2003. Sanlam Multi-Manager and Sanlam Private Investments both received over R3 billion in new inflows, which is three times that achieved in 2003. Innofin investment inflows improved by 19% to R6,1 billion. New business inflows of Sanlam Financial Services in the United Kingdom amounted to R6 billion. The actuarial consulting business, PSolve, contributed 79% of new business flows.

The 12% growth in **Life insurance** new inflows is encouraging after the disappointing inflows in 2003. Individual single premiums, which constitute approximately 65% of new Life inflows, are up by 20% on 2003. This is largely due to a R600 million maiden contribution from Merchant Investors Assurance and 26% growth in Investment Linked Life Annuities (ILLA) sold by Innofin. New Individual recurring business is down 4%, while new Employee benefits business is 2% up on 2003. The overall Life Annual Premium Equivalent (APE) of R1 958 million is 7% up on 2003.

Short-term insurance premiums, net of reinsurance, increased by 14% on 2003. The growth in premiums is the combined impact of a 2% improvement in gross new premiums written and the optimisation of Santam's level of reinsurance.

New business embedded value

A combination of cost savings in the Life Insurance cluster, higher new business inflows and a 1,1% reduction in the risk discount rate, contributed to a 40% increase to R324 million in the embedded value of new life business (NubEV) written during the year. The profitability of the new life business, as measured by the ratio of the embedded value of the new business to the APE, improved from 12,7% in 2003 to 16,5%. This margin is at the high end of what we believe is sustainable in the current industry environment.

R million	2004	2003	Δ%
Individual life	258	169	53
Innofin Illas	14	14	–
Employee benefits	41	46	(11)
SA Life	313	229	37
MIA	1	–	
Namibia	10	3	233
Total NubEV	324	232	40
Individual life margin (%)	18,3	12,4	
Employee benefits margin (%)	11,5	13,4	
Overall life margin (%)	16,5	12,7	

Net new inflows

R million	2004	2003	Δ%
Individual life	279	(1 907)	115
Employee benefits	(3 717)	(3 120)	(19)
Investment business	11 024	6 241	77
SFS UK	5 683	1 362	317
Short-term insurance	3 322	2 380	40
Net business flows	16 591	4 956	235
Total inflows	70 731	48 883	45
Total outflows	54 140	43 927	(23)

Net fund inflows exceeded R16 billion, a significant improvement on the R5 billion achieved for the 2003 financial year. A major portion of the net flows came from local investment flows, with strong net inflows achieved by Innofin and all the major businesses in the Investment cluster, as well as substantial flows from Sanlam Financial Services in the UK. The net outflow of Sanlam Individual Life funds of recent years has been curbed and a net inflow was recorded for the year. The continuing net loss of Employee benefits business remains a concern and is receiving high priority attention.

Operating results

Gross operating profit of R3 520 million is 46% higher than 2003. Santam's performance was a major contributor to this significant growth. Solid performances were also delivered by all the other businesses.

R million	2004	2003	∆%
Income after sales remuneration	15 118	14 078	7
Underwriting benefits	(6 965)	(6 877)	(1)
Administration costs	(4 633)	(4 796)	3
Result from operations before tax	3 520	2 405	46

Income after sales remuneration, the overall aggregate of fees earned, underwriting premiums received and net interest earned on working capital, is up 7% on 2003. This increase is mainly attributable to an increase in net premium income recorded by Santam and the increased revenue of the Investment cluster. Net underwriting benefits paid by Sanlam Life and Santam increased by only 1%. Administration costs were down 3% on 2003. Significant cost savings attained by Sanlam Life and Sanlam Capital Markets was largely offset by an increase in Santam's expenditure (in line with their higher business volumes). Excluding Santam, expenditure in the remainder of the Group decreased by 8%. The Group's administration cost ratio improved from 33,6% in 2003 to 30,6%. The operating margin of 23,3% is substantially higher than the 17,5% achieved in 2003.

R million	2004	2003	∆%
Sanlam Life	1 768	1 467	21
Individual life	1 580	1 285	23
Employee benefits	188	182	3
Santam	1 369	735	86
Sanlam Capital Markets	90	55	64
Sanlam Investments	431	270	60
Ind. Financial Services	50	(1)	>100
Corporate income	75	73	3
	3 783	2 599	46
Corporate expenses	(186)	(120)	(55)
Continuing operations	3 597	2 479	45
Discontinued operations	(77)	(74)	(4)
Result from operations before tax	3 520	2 405	46

The **Sanlam Individual Life** operating profit of R1 580 million is 23% up on 2003. These results include a first contribution (R61 million) from Merchant Investors Assurance (MIA). Except for the MIA contribution, the improved performance is largely attributable to a lower cost base and the resulting rise in administration income. The growth was tempered by a decrease in interest earned on working capital due to lower interest rates. Before interest earned, operating profit rose by 52% on 2003.

Sanlam Employee Benefits' profit increased by 3% on 2003 to R188 million due to improved underwriting profit benefiting from favourable claims experience.

Exceptional underwriting performance in property, motor and personal lines contributed to **Santam's** underwriting surplus of R1 166 million. Operating profit of R1 369 million (17,7% of net premiums earned), which also includes the interest earned on the free float, is 86% higher than 2003.

The **Investment cluster** operating result of R431 million is 60% up on 2003. All operations in the Cluster performed well. Fees received by Sanlam Properties from the Vukile listing and incentive fees earned on the outperformance of benchmarks by the wholesale investment manager contributed to the strong results. International operations contributed R77 million from a very low 2003 base.

Sanlam Capital Markets (SCM) achieved an annual operating profit of R90 million in line with target and an after tax return on capital of 21% for 2004.

Independent Financial Services recorded a major improvement on 2003, largely due to an improved performance by the actuarial consulting business (within SFS) operating in the UK.

Other income is 3% up on 2003. The relatively low increase is due to shrinking margins on the preference share portfolio. The substantial increase in **corporate expenses** can mostly be attributed to the corporate social investment spend that has been transferred to a centralised budget from 2004 and a once-off provision for a special Group branding campaign.

Discontinued operations consist of the remaining Gensec assets and related liabilities that do not match the profile and criteria set for the ongoing SCM operations. Following the official return of the Gensec banking licence on 21 June 2004, the assets constituting discontinued operations are, from 1 July 2004, part of Sanlam's capital portfolio and their results are being reported as part of investment return. Discontinued expenditure reflected in operating profit for the period to June 2004 included the final provision in respect of the settlement of the Fieldstone court case referred to below and a prudent adjustment to the valuation of certain debt instruments.

Contingencies

The note on contingencies (note 31 on page 200) in the Annual Financial Statements provides detail of certain significant taxation and legal claims against the Group. The relevant Group companies are contesting either the merit or quantum of these claims. Existing provisions cover the best estimate outcome but do not cover the potential maximum exposure in respect of these contingencies.

An out-of-court settlement has been reached in the case brought against Gensec Bank Limited and others in the Supreme Court of the State of New York, United States of America by the former shareholders of Fieldstone Incorporated, which was acquired by Gensec in 2002. The nature of the plaintiffs' claims was reported in 2003. The reported results of the discontinued operations for 2004 include a further provision of R19 million to cover the full cost of the settlement and all related legal costs.

CAPITAL MANAGEMENT

Corporate activities

The Sanlam group entered into a number of corporate transactions during 2004. The salient features of the more important transactions are set out below:

- At an extraordinary general meeting in April 2004, Sanlam shareholders approved the proposed empowerment transaction whereby *Ubuntu-Botho Investments (Pty) Ltd*, under the leadership of Patrice Motsepe, acquired an initial 8% of the issued ordinary share capital of Sanlam and convertible deferred shares equal to a further 2% on conversion. The transaction was subsequently implemented as proposed.
- The Sanlam Investment cluster concluded an agreement with JP Morgan Chase (JPM) in August 2004 in terms of which it sold its back office administration company, *Tasc Administration (Pty) Ltd* to JPM. At the same time it entered into a long-term arrangement with JPM to provide future administration services to the Cluster.
- Sanlam disposed of 65% of its interest in Gensec Property Services (GPS) in July 2004 to an empowerment consortium that includes members of management and the Pam Golding Group. GPS will continue to manage the Sanlam property portfolio.
- A major new player in the Namibian financial services market, *Consolidated Financial Services* (CFS), was formed in July 2004, through the merger of the financial services interests of Sanlam Namibia, Capricorn Investments, Regent Life Assurance and Nam-Mic Financial Services. Sanlam holds a 55% interest in CFS.
- Sanlam Life acquired a 55% interest in *Safrican* in December 2004. Safrican is a life insurer in the Thebe Group, focusing on funeral and credit life insurance in the entry-level market segment. At the same time, Sanlam Independent Financial Services acquired a 30% interest in Thebe Community Financial Services (TCFS). TCFS houses a number of the Thebe Group's financial services ventures, including the distribution activities of Safrican. The transaction is subject to certain suspensive conditions.
- Barclays Plc announced in September 2004 that it intends to acquire a controlling shareholding in *Absa Group Limited*. A regulatory approval process is currently underway and may impact on the feasibility and terms of a possible transaction. Sanlam will support a Barclays offer subject to it realising appropriate fair value for its Absa shareholding. No formal offer has been made to date.

Embedded value (EV)

Sanlam's goal is to ensure an acceptable investment return for Sanlam shareholders by maximising the return delivered on Sanlam's capital base. For this purpose Sanlam focuses on return on embedded value (ROEV) as a primary measure of performance. This takes the return earned on the capital employed in the Group and the growth in the value of Sanlam Life's **in-force book** of business (VIF) into account. A ROEV target has been set to outperform the 10-year bond yield by between 3% and 4% per annum on a sustained basis. The return on embedded value per share of 22,5% and 14,2% achieved for the past two years is well in excess of this target.

R million	2004	% return	2003	% return
Growth in net asset value	6 021	28,1	2 076	10,3
Investment return	6 389		2 226	
Incentive scheme cost	(368)		(150)	
Growth in VIF	2 063	26,9	1 665	24,7
New business EV	324		218	
Expected return	1 145		1 153	
Experience variances	213		251	
Assumption changes etc	413		43	
Minority interest	(32)		–	
Return on embedded value	8 084	27,7	3 741	14,0

At 31 December 2004 Sanlam's embedded value amounted to R37 billion or 1 346 cents per share. This represents an increase of 25% on the R29 billion at the end of December 2003. The return on embedded value in 2004 of 27,7% is calculated as the increase in value due to operating and investment activities of R8,1 billion as a percentage of the opening embedded value, before taking into account capital activities. Capital activities include the dividend of R1,1 billion paid in respect of the 2003 financial year, the R0,8 billion capital raised by issuing new shares to Ubuntu-Botho, and R0,4 billion utilised to buy back 39,1 million Sanlam shares during the period. The return per share is lower at 22,5% essentially due to the dilutionary effect of the new shares issued as part of the Ubuntu-Botho transaction.

R million	2004	% of total	2003	∆%
Group operations	7 785	26	6 237	25
Santam	4 028		2 688	50
Investment cluster	2 384		1 904	25
Non-life businesses within Life cluster	496		214	132
IFS cluster	394		430	(8)
SCM	483		1 001	(52)
Absa	9 429	31	5 181	82
Other	12 768	43	11 401	12
Net Asset Value (at fair value)	29 982	100	22 819	31
NAV cents per share	1 100		883	25

Group shareholders' funds or **net asset value** (NAV) calculated at fair value, i.e. including operating subsidiaries as investments at market value and not consolidated at their underlying net asset value, increased by 31% to R30 billion by the end of December 2004. This growth is mainly due to improved equity markets, and in particular, the appreciation in value of Sanlam's investments in Absa and Santam. The value of the investment in Absa increased by 82% to R9,4 billion, and now constitutes approximately 31% of NAV. The sharp increase in Absa's share price can be ascribed to the positive market reaction following the announcement of a potential acquisition by Barclays plc, and to a general re-rating of South African banking shares. The exceptional underwriting results experienced by the short-term insurance industry, coupled with the strong stock market performance, led to a 50% rise in the Santam share price. Corporate activity during the year had limited impact on the overall composition of the shareholders' fund.

Sanlam's aim is to deliver an appropriate return to shareholders through superior operating performance, while ensuring the most optimal use of capital.

Certain adjustments are made to the net asset value for embedded value purposes:

- The regulatory requirements for Sanlam's acquisition of Merchant Investors Assurance (MIA) were only satisfied late in December 2003 and the results of the company were therefore not consolidated in the Sanlam group results for 2003, but included as an investment at cost. As from 2004 the net asset value of MIA is included in the consolidated results with an accompanying addition to goodwill. In the embedded value calculation for 2004 the goodwill of R321 million is reversed from NAV and replaced in the VIF calculation with the value of MIA's in-force business. The 2003 embedded value numbers were restated accordingly.
- As from 2004, embedded value is reported net of the estimated current value of the cost of servicing all outstanding share options ('in the money option value'). The 2003 embedded value was restated with the calculated commitment of R431 million at the end of December 2003. The embedded value earnings for 2004 include a charge of R368 million, which reflects an increase in the commitment due to the rise in Sanlam's share price during the year. This is prudent and non-compulsory accounting for the dilutionary impact of outstanding share options and reflects Sanlam's commitment to transparent and relevant disclosure.
- A valuation of future corporate expenses is deducted from the embedded value. The major reasons for the increase in the valuation are an increase in the actual level of expenditure, substantially due to the centralisation of the Group Corporate Social Investment budget and a marked increase in the Sanlam P/E ratio, which forms the base for the valuation of this item.

CHRIS SWANEPOEL

Chief actuary

R million	2004	2003	∆%
Adjusted Net Assets	28 017	21 438	31
Group shareholders' fund at fair value	29 982	22 819	31
MIA goodwill (and Innofin)	(321)	(449)	29
Share incentive scheme cost	(799)	(431)	(85)
Present value of corp expenses and other	(845)	(501)	(69)
Net value of in-force business	8 665	7 793	11
Gross value of in-force business	10 097	9 143	10
Cost of capital at risk and minority interest	(1 432)	(1 350)	(6)
Embedded value (EV)	36 682	29 231	25
Share price (cps)	1 300	880	48
NAV cents per share	1 100	883	25
EV cents per share	1 346	1 131	19
Share price discount to EV	3%	22%	

The value of Sanlam Life's in-force book at the end of December 2004 amounted to R8,7 billion, after taking into account the cost of capital at risk of R1,4 billion. Growth from life insurance business, based on the starting value of VIF, amounted to 26,9% compared with growth of 24,7% in 2003. The improvement is largely the result of a 40% increase to R324 million in the embedded value of new business written and positive investment variances.

Capital efficiency

The majority of the Sanlam group's shareholder funds is applied in support of the operations of Sanlam Life. In addition, Group capital is invested in a variety of strategic Group businesses, including Santam and SCM. The level and nature of the Sanlam Life supporting capital and the capital allocated to other Group businesses are influenced by minimum regulatory capital requirements, and economic, risk and growth considerations. An ongoing analysis is being performed to determine the most appropriate capital levels for the different Group businesses. All the Sanlam group operations were adequately capitalised at 31 December 2004. Both Sanlam Life and Santam exceeded their minimum regulatory capital requirements by a substantial margin.

- At 31 December 2004 the capital allocated to **Sanlam Life** amounted to R26 billion, 87% of the Group's net asset value. Investments in Absa, Santam and Sanlam Investment Management accounted for more than half of Sanlam Life's capital. Recent changes in statutory regulations applicable to life insurers limit the extent to which certain investments qualify for regulatory purposes. The maximum value to be placed on unlisted investments or holdings of above 20% in listed investments is restricted to their respective net asset values after allowing for their own capital adequacy requirements. The limitation on listed equities is being phased in. The statutory qualifying capital of

Sanlam Life covered its minimum capital adequacy requirements (CAR) of R6,6 billion, after allowing for appropriate management actions, 3,7 times at the end of December 2004 (2,6 times at the end of 2003). The improved cover can be attributed to improved equity markets and the active management of the shareholders' funds.

A stochastic modelling process is used to simulate a vast number of investment and new business scenarios. This is to determine a required capital level that will ensure sustained solvency (1,5 times solvency) within an acceptable (95%) confidence level. Based on current estimates and taking into account the current level of equity markets, this model indicates the need to retain a capital level for Sanlam Life of approximately R16 billion.

- The **Santam** board recently reviewed its optimal solvency level and future capital requirements. This process indicated a potential to reduce its capital while retaining an appropriate solvency level. Santam maintained a solvency level of more than 55% throughout 2004, which is well in excess of the required statutory level. A special capital distribution to shareholders of R1,15 billion has therefore been proposed.

- Capital allocated to **Sanlam Capital Markets** has been set at R400 million, reflecting its reduced NAV after the restructuring of Gensec Bank. At 31 December 2004 accumulated profit increased the level of capital to R483 million. Comprehensive stress and risk modelling techniques are being applied to SCM's assets and liabilities to ensure, within a 99,5% confidence level, that SCM's actual economic capital exposure or maximum capital at risk remains within its allocated capital base. SCM's current capitalisation is regarded sufficient to sustain its current business model.

  To support the former Gensec Bank's external rating and to ensure its competitive market position, Sanlam agreed to provide a capital maintenance guarantee of R5 billion to the bank over and above its capital at the time of R2 billion. This facility remains in place until it has been replaced with a form of guarantee more suitable to SCM's activity level and business model. The aim is to have an alternative arrangement in place prior to the end of 2005.

Excess capital

R billion	
Sanlam Life minimum capital requirement	16
Other strategic holdings	7
	23
Balance	7
Net Asset Value (at fair value)	30

As indicated above, Sanlam Life's minimum capital requirement, based on a balanced portfolio of statutory qualifying investments, is approximately R16 billion. In addition, capital invested in other Group operations and some illiquid assets account for R7 billion, leaving a balance of R7 billion invested in sundry portfolio investments, which includes a major portion of the Group's Absa shareholding. After accounting for the dividend of 50 cents per share payable in May 2005 and the impact of Santam's capital reduction, the Group potentially has capital in excess of its immediate requirements of some R7 billion.

The extent and availability of excess capital in the Group is intrinsically linked to the future of the Group's investment in Absa. This investment contributed substantially to the Group's recent growth in embedded value and its relative overweight position in the Group's net asset value is in part due to its share price performance. The investment however, represents a minority holding in a non-Group operation and is not key to the Group's strategy or its ability to derive value from a closer business relationship with Absa. The monetisation of some or all of the Group's holding in Absa will release capital for alternative utilisation. The Barclays transaction, if concluded, will accelerate this process.

Sanlam's aim is to deliver an appropriate return to shareholders through superior operating performance, while ensuring the most optimal use of capital. To achieve this, a target has been set to enhance the Sanlam position as a primary provider of wealth creation and protection products and services to a broad spectrum of South Africans. Furthermore, geographic diversification will provide important opportunities for sustainable growth. In deploying capital, preference is therefore being given to structural growth opportunities that support this strategy. Any capital allocation to existing operations or new prospects must however be ROEV accretive, and will be measured against a risk adjusted hurdle rate that reflects the cost of capital to the Group plus an appropriate risk margin. A number of growth prospects are currently being pursued. 'Unproductive' capital that is not required in the process and is not adding value, will be returned to shareholders.

Credit rating

During 2004 Sanlam Limited and Sanlam Life Insurance Limited obtained formal credit ratings from Fitch Ratings. Sanlam Life was awarded an 'AA' financial strength rating and Sanlam Limited an 'A+' long-term debt rating. These ratings enable the Sanlam operations to attract business from clients that require a formal rating from its counter party or product provider. It also provides the opportunity for Sanlam to issue rated debt instruments, if required.

PROSPECTS

The 2004 Sanlam results have been exceptional. The Group has benefited from the unusually high underwriting margins experienced in the short-term insurance industry, the major cost-cutting exercise in Sanlam Life and the outstanding equity market performance. This had a positive impact on growth both in the capital portfolio and in investment-related income sources, most notably performance-related investment management fees.

KOBUS MÖLLER

Chief executive finance

It will be difficult to improve on this earnings performance in 2005. Market forces should, in time, ensure a return to lower short-term underwriting margins, which will impact on the Group's earnings. A component of Sanlam Life's revenue, which has contributed approximately 15% of Sanlam Life's after tax operating income in 2004, is linked to an historic tax dispensation and is expected to be substantially lower from 2006 onwards. Sanlam Life's embedded value fully accounts for the anticipated reduction in this revenue source. These items will impact on the Group's ability to achieve meaningful earnings growth in the short-term. Management focus remains on exploring opportunities to diversify and further expand the Group's revenue sources to ensure sustained real growth.

ACCOUNTING POLICY AND PRESENTATION

Management focus remains on exploring opportunities to diversify and expand the Group's revenue sources to ensure sustained real growth.

The following sets out the changes in policy and presentation applicable to the 2004 results.

Accounting policy

The accounting policy for goodwill has been amended as required by IFRS3 (AC140). Goodwill in respect of business combinations with an agreement date on or after 31 March 2004 are not amortised but reflected at original cost less provisions for impairment. In terms of the transitional provisions of IFRS3 (AC140) the accounting policy for business combinations with an agreement date before 31 March 2004, remains unchanged for the 2004 financial year. This change had no material impact on the 2004 results.

No other changes were made to the Group's accounting policies in 2004. Compliance with International Financial Reporting Standards (IFRS) will become compulsory with effect from January 2005 and will require a number of changes in accounting policy and presentation. Further detail in this regard is provided from page 54.

Changes in presentation

Derivatives

In terms of AC133 (Financial Instruments: Recognition and Measurement) Sanlam has designated the investment assets in its capital portfolio as available-for-sale and elected to account for both realised and unrealised valuation changes outside headline earnings. The interpretation of AC133 has evolved since Sanlam first adopted AC133 and prepared the results for 2003. This is particularly in respect of the treatment of derivative instruments held as a hedge against adverse value movements in the capital portfolio. The initial interpretation was that Sanlam's treatment of derivatives in its capital portfolio would qualify for hedge accounting and the effect of the hedges could be matched against the value movement of the hedged investments. At the end of 2003 the actual impact of the hedges was minimal and separate disclosure was not required. Current interpretation of

AC133, however, is that hedge accounting will not be allowed in cases where a portfolio of equities is hedged, despite the fact that the hedges are effective. All derivative instruments held by the shareholders' funds have to be designated as held-for-trading and their net fair value adjustment included in headline earnings. The value changes in the underlying equity portfolio are taken directly to equity, causing a mismatch of the actual hedged investment performance.

Deferred taxation

The presentation of deferred tax in respect of the policyholders' funds has been amended in line with a directive issued by the Financial Services Board. In terms of the directive, deferred tax assets and liabilities should be recognised and separately disclosed for all temporary differences of the policyholders' funds. This deferred tax was previously included in, and disclosed as part of, long-term policy liabilities. Comparative figures have been restated to transfer the applicable deferred tax balances from long-term policy liabilities to a deferred tax liability.

Core earnings

The reported headline earnings are distorted by the value adjustment of derivatives without a corresponding value adjustment to the underlying hedged portfolio and the once-off financial assistance provided to policyholders' funds. As a result Sanlam publishes a *core earnings* figure that excludes these two items and comprises the Group's normalised results from operations and investment income.

Details of changes in reporting structures are discussed on page 158.

Number of shares

The table below provides detail on the number of shares used in the calculation of value and earnings per share.

R million	2004	2003
Opening balance	2 654,6	2 654,6
New shares issued to Ubuntu-Botho	113,0	–
Shares in issue at end of year	2 767,6	2 654,6
Convertible deferred shares	5,8	–
Treasury shares held by subsidiary	(47,5)	(69,4)
Total number of shares (value per share)	2 725,9	2 585,2
Opening balance	2 654,6	2 654,6
Shares issued to Ubuntu-Botho (average)	84,8	–
Average number of shares (basic)	2 739,4	2 654,6
Shares under option (SUO)	132,1	157,8
SUO to be issued at fair value	(102,1)	(133,8)
Convertible shares accrued (average)	3,0	–
Treasury shares held by subsidiary (average)	(41,1)	(44,1)
Average number of shares (diluted)	2 731,3	2 634,5

Impact of the Ubuntu-Botho transaction

Following the approval by shareholders in April 2004, Ubuntu-Botho, a black empowerment consortium led by Patrice Motsepe, acquired an initial 8% of Sanlam's ordinary share capital and became one of the largest beneficial shareholders in Sanlam.

The transfer of 56,5 million Sanlam treasury shares to the Sanlam Ubuntu-Botho Community Development Trust to establish its 20% holding in Ubuntu-Botho, is accounted for as a disposal of treasury shares for no consideration in terms of Generally Accepted Accounting Practice (GAAP). This does not impact on the income statement. The financial effects of the transaction as set out in the circular to shareholders on the transaction, provided for the possible write down of the carrying value of these shares (R303 million *pro forma*) in the income statement.

The calculated number of Sanlam shares in issue includes 5,8 million (3 million weighted) of the Sanlam 'A' deferred shares issued to Ubuntu-Botho, which, in terms of the relevant value added formula, qualified for conversion into ordinary shares based on Sanlam's business flows for the year. These shares are convertible to ordinary shares when the accrued value added of R7,65 per share has been achieved. The right to convert is determined and vests on the finalisation of each full year's audited results. The deferred shares are taken into account in the calculation of earnings and embedded value per share to the extent that the converting rights have vested.

	Value added R million	New shares million
Life new business EV increase	21,0	2,75
Net SIM segregated flows	12,7	1,66
SCI flows	10,6	1,39
UB participation in 2004	44,3	5,80

The net increase in Sanlam's weighted number of issued shares due to the transaction, and to a lesser extent other treasury share activity, resulted in a dilution of approximately 4% in headline earnings growth per share for the year and a dilution of 5% in the return on embedded value per share for 2004.

FINANCIAL REPORTING STANDARDS

South African companies, and in particular long-term insurance companies, are faced with an ever-changing accounting environment. The compulsory adoption of International Financial Reporting Standards (IFRS) with effect from 2005, combined with the withdrawal of the specific South African accounting standard applicable to insurers (AC121), will have a significant impact on the reported results of South African insurance companies.
An aggravating factor is that the development of guidance and specific interpretation

issues for the industry, both from a local and international accounting and actuarial perspective, is an ongoing process. This is likely to require several refinements in presentation over time.

The impact on Sanlam will be twofold in that it will have an effect on the reported financial results and a requirement to make certain changes to the presentation of the results. The following provides an indication of the major areas of impact, based on current interpretations. The final results and disclosure for Sanlam may differ from those presented below, as specific industry application develops in time. The illustrative results exclude adjustments that will have no net impact on the attributable earnings, net asset value (NAV) and embedded value (EV) of the shareholders' funds.

Financial impact

The most notable financial effect relates to the accounting treatment of investments in own shares, subsidiaries and associates in the absence of AC121.

In addition, the adoption of IFRS by Sanlam will have an impact on the accounting treatment of:

- net fair value gains and losses (investment surpluses);
- goodwill;
- the measurement requirements for investment contracts;
- the disclosure requirements for insurance contracts; and
- share option cost.

Withdrawal of AC121

Investment in own shares, subsidiaries and associates

The South African standard AC121 is being withdrawn concurrently with the introduction of IFRS. Therefore, there will no longer be any form of exemption from applying normal consolidation principles in instances where investments are held in policyholder portfolios to fund policyholder benefits. Portfolio investments in subsidiary companies (eg Santam) will no longer be accounted for at market value but be carried at consolidated net asset value. Portfolio investments in Sanlam shares will have to be treated as treasury shares and eliminated on consolidation. The result is a mismatch between the valuation of long-term policy liabilities, which will continue to be based on the market value of the affected investments, and the policyholder assets underlying these liabilities, which may not be at fair value or may be eliminated on consolidation.

The value differences are temporary and will be reversed when assets not measured at fair value are sold at their fair value and when treasury shares are disposed of. The value difference in any particular period will be balanced through an income statement transfer to or from the shareholders' fund, impacting on headline and attributable earnings as well as net asset value. An appropriate adjustment will be made to the value of the shareholders' fund for EV and CAR purposes to reverse this impact.

Investments in associated companies are currently carried at their original cost plus the shareholders' funds' share of its retained earnings after acquisition (effectively carried at NAV, plus any goodwill paid on acquisition). In respect of the investment in Absa, the equity-accounted carrying value is currently further adjusted to reflect the investment at fair value. This adjustment to fair value is not allowed in the absence of AC121 and Sanlam will be required to limit the value of the shareholders' funds' investment in Absa to the equity-accounted carrying value.

Adoption of IFRS

Investment surpluses

The adoption of IFRS has resulted in Sanlam reconsidering the treatment of investment surpluses. Most of Sanlam's investments are classified as "available-for-sale" in terms of AC133. Sanlam elected to charge unrealised investment surpluses directly against equity, while realised investment surpluses are recycled through the income statement but do not form part of headline earnings. It is not feasible to continue with this accounting treatment of unrealised investment surpluses given the other changes in the Sanlam income statement relating to the adoption of IFRS, especially those relating to policyholder investment return. As a first-time adopter of IFRS, Sanlam has therefore elected to reclassify its investments from the "available-for-sale" to the "held at fair value through profit or loss" category in IAS39 (the IFRS equivalent of AC133). All investment surpluses (realised and unrealised) will in future be included in headline earnings.

Goodwill

In terms of Sanlam's current accounting policies goodwill is amortised over the lesser of its useful life and ten years. Under IFRS goodwill is not amortised but reviewed for impairment on a continual basis. Impairments will not impact on headline earnings.

Valuation of policy contracts

IFRS distinguish between investment contracts, which fall under the ambit of IAS39 and insurance contracts, which are accounted for in terms of IFRS4. The immediate impact of IFRS4 is largely limited to additional disclosure requirements with no impact on the valuation or profit recognition of insurance contracts. IFRS4 is the first phase in the development of a comprehensive standard for insurance accounting and phase II (only expected in 2008/9) may have a more material impact on results.

The value of investment contracts issued by the Life Insurance cluster is currently determined by using the financial soundness valuation method, which is consistent with the valuation of assets at fair value. Under IFRS, the assets, liabilities and earnings from these contracts must be determined in terms of IAS39 (Financial instruments) and IAS18 (Revenue recognition). The valuation and profit recognition principles of these accounting standards are more conservative than the financial soundness method as applied by Sanlam, resulting in an increase in the net value of long-term policy liabilities. This creates new business strain and affects earnings, embedded values and new business embedded values. The impact on new business embedded values is not expected to be material.

Share option cost

Accounting for the cost of share options granted to employees has been a contentious subject for a number of years. IFRS2 (Share-based payments) was issued to prescribe, among others, the accounting treatment of share option cost and is applicable to all share options granted to employees after 7 November 2002.

It requires that Sanlam:

- Measure the fair value of options issued at each grant date;
- Recognise an expense in the income statement over the vesting period of the options, equal to the fair value at grant date; and
- Increase equity each year with an amount equal to the expense recognised in the income statement.

The net result is a reduction in earnings which has no impact on the net asset value of shareholders' funds.

A reconciliation of the expected balance sheet and income statement impact of the major adjustments required by the withdrawal of AC121 and the adoption of IFRS to Sanlam's 2004 reported results are summarised in the tables below.

PRO FORMA BALANCE SHEET EFFECT:

R million	Shareholders' fund	EV	Number of shares (million)
2004 reporting basis	27 642	36 682	2 725,9
Withdrawal of AC121:			
Reduction in the carrying value of the shareholders' funds' investment in Absa	(4 650)	–	–
Reduction in the carrying value of the policyholders' funds' investment in Santam	(90)	–	–
Reduction in the carrying value of the policyholders' funds' investment in Sanlam Limited shares	(1 824)	–	(140,3)
Adoption of IFRS:			
Reverse goodwill amortisation	290	–	–
Change in carrying value of investment contracts issued by Life Insurance cluster	(362)	(228)	–
2005 IFRS reporting basis	**21 006**	**36 454**	**2 585,6**
Value per share (cents):			
– 2004 reporting basis	1 014	1 346	
– 2005 IFRS reporting basis	812	1 337	

PRO FORMA INCOME STATEMENT EFFECT:

R million	Core earnings	Headline earnings	Attributable earnings	Average number of shares (million)
2004 reporting basis	3 340	3 185	3 283	2 731,3
Withdrawal of AC121:				
Difference between fair value-based earnings and equity-accounted earnings for the shareholders' funds' investment in Absa	–	(2 898)	(2 926)	–
Change in value shortfall of the policyholders' funds' investment in Santam	–	46	46	–
Change in value shortfall of the policyholders' funds' investment in Sanlam Limited shares	–	(480)	(480)	(146,5)
Adoption of IFRS:				
New business strain from investment contracts issued by Life Insurance cluster	(66)	(66)	(66)	–
Recognise share option costs	(55)	(55)	(55)	–
Reverse goodwill amortisation	–	–	290	–
Recognise all investment surpluses in headline earnings	–	4 288	3 588	–
2005 IFRS reporting basis	**3 219**	**4 020**	**3 680**	**2 584,8**
Earnings per share (cents):				
– 2004 reporting basis	122,3	116,6	120,2	
– 2005 IFRS reporting basis	124,5	155,5	142,4	

Presentation format

The impact of the implementation of IFRS on the format of Sanlam's balance sheet is negligible, being limited to a change in the description of certain line items and the creation of a deferred acquisition cost intangible asset. Sanlam's income statement will, however, be affected to a larger extent and requires a change in its format and a reclassification of certain income statement line items. A pro forma Sanlam IFRS income statement, incorporating the expected financial impact is provided below. As mentioned above, the illustrative results exclude adjustments that will have no net impact – some adjustments and transfers between line items and disclosure of more detailed lines will be finalised as interpretation unfold.

SANLAM GROUP INCOME STATEMENT

Pro forma post IFRS adoption

	2004 R million
Net income	43 165
Premiums, fees and other income	18 028
Reinsurance premiums paid	(2 303)
Reinsurance commission received	494
Investment income	9 491
Net investment surpluses on assets at fair value through income	17 455
Net insurance and investment contract benefits and claims	(30 081)
Long-term insurance and investment contract benefits	(25 814)
Short-term insurance claims	(5 014)
Reinsurance claims received	747
Expenses	(7 108)
Sales remuneration	(2 455)
Administration costs	(4 653)
Impairment of investments and goodwill	(247)
Net operating result	5 729
Equity-accounted earnings	945
Loss from discontinued operations (including impairments)	(152)
Profit before tax	6 522
Tax expense	(1 849)
Shareholders' fund	(1 311)
Policyholders' fund	(538)
Profit for the year	4 673
Attributable to:	
Equity holders of the Company	3 680
Minority interests	993
	4 673

The IFRS Income Statement provides the consolidated results of both shareholder and certain policyholder activities, whereas the current income statement only includes the activities of the shareholders' funds. It also does not make the current distinction between the shareholders' investment and operating activities. These are separate areas of management focus and an important distinction in evaluating the Sanlam group's financial performance. A detailed analysis of the information in the IFRS Income Statement and Balance Sheet will therefore in future be provided in the form of segmental reports:

- A Segmental Income Statement and Balance Sheet will provide an analysis of the shareholder and policyholder activities included in the IFRS Income Statement and Balance Sheet; and
- Additional segmental information (similar to the current shareholders' fund disclosure) will provide a further analysis of the shareholder activities, differentiating between the operating Clusters within the Group.

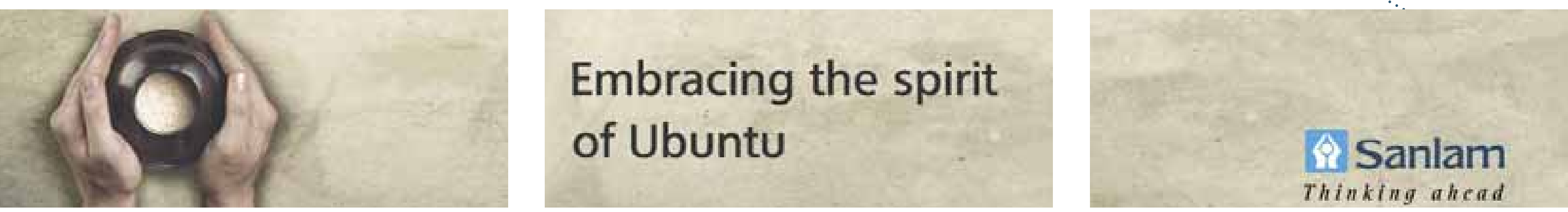
A Segmental Income Statement, as set out below, will be included in Sanlam's future annual report and results announcements:

SANLAM GROUP SEGMENTAL INCOME STATEMENT

Pro forma post IFRS adoption

	2004			
		Shareholders' fund		Policy-holders' fund
	Total	Financial services	Investment return	
Net income	43 165	17 236	2 275	23 654
Premiums, fees and other income	18 028	18 028	–	–
Reinsurance premiums paid	(2 303)	(2 303)		
Reinsurance commission received	494	494	–	–
Investment income	9 491	1 017	721	7 753
Net investment surpluses on assets at fair value through income	17 455	–	1 554	15 901
Net insurance and investment contract benefits and claims	(30 081)	(6 965)	–	(23 116)
Long-term insurance and investment contract benefits	(25 814)	(2 698)	–	(23 116)
Short-term insurance claims	(5 014)	(5 014)	–	–
Reinsurance claims received	747	747	–	–
Expenses	(7 108)	(7 108)	–	–
Sales remuneration	(2 455)	(2 455)	–	–
Administration costs	(4 653)	(4 653)	–	–
Impairment of investments and goodwill	(247)	–	(247)	–
Net operating result	5 729	3 163	2 028	538
Equity-accounted earnings	945	–	945	–
Loss from discontinued operations (including impairments)	(152)	(152)	–	–
Profit before tax	6 522	3 011	2 973	538
Tax expense	(1 849)	(1 022)	(289)	(538)
– shareholders' fund	(1 311)	(1,022)	(289)	–
– policyholders' funds	(538)	–	–	(538)
Profit for the year	4 673	1 989	2 684	–
Attributable to:				
Equity holders of the company	3 680	1 469	2 211	–
Minority interests	993	520	473	
	4 673	1 989	2 684	–

transforming for sustainability ...



We are transforming for sustainability

- Internal structures in place to drive compliance with all relevant regulatory frameworks
- King II compliant in all material respects
- Key appointments made to strengthen board
- Enhanced risk management and reporting structures
- Substantive progress made across the broad-based Financial Sector Charter (FSC) scorecard
- Ubuntu-Botho transaction approved, CEO appointed, internal structures established
- Sustainability approach becoming entrenched in business culture

Thinking ahead Sanlam

The board appreciates that corporate governance is a component of equity risk and acknowledges the relationship between governance risk, equity performance and corporate profitability.

STATEMENT OF COMMITMENT

The Sanlam board of directors subscribes to, and is fully committed to complying with, the Code of Corporate Practices and Conduct contained in the King Report on Corporate Governance (King II). The directors continually consider the implications of national and international corporate governance best practice and are of the opinion that Sanlam complies with the requirements of King II in all material respects. A corporate governance analysis was recently conducted, both internally and by external service providers, which included the corporate governance standards and practices in the Sanlam group, and the findings supported material compliance. Those areas requiring attention have been identified and are being addressed.

In full support of King II, Sanlam recognises its responsibility as a financial institution to conduct its affairs with prudence and integrity, with transparency, accountability, fairness and social responsibility, and in accordance with generally accepted accounting practices, to safeguard the interests of all its stakeholders. The board appreciates that corporate governance is a component of equity risk and acknowledges the relationship between governance risk, equity performance and corporate profitability.

The Sanlam group operates according to a decentralised business model and on a partnering basis with its individual business clusters. Each business cluster has its own governance structures to ensure strategic relevance. These are supported by clear approval frameworks and agreed upon principles, which ensure a coherent and consistent governance approach throughout the Group.

The board regards good corporate governance as a priority requiring strict observance, not just to ensure compliance with new legislation and best practices, but also as a critical business imperative.

SUSTAINABILITY PERFORMANCE

With regard to sustainability reporting, which is separately reported on in this Annual Report, the board recognises that there are qualitative, non-financial issues that influence the ability of Sanlam to create shareholder value into the future. These relate to investment in human and other intellectual capital, and the extent of Sanlam's social transformation, and its ethical, safety, health and environmental policies and practices. The Sanlam group recognises its obligation to contribute to socio-economic goals and general social upliftment. The Group strives to conduct its business with due regard for environmental concerns, and is commited to developing operating policies to address the environmental impact of its business activities, if any. The board has established a dedicated committee responsible for continual reporting on these matters, determining the materiality and relevance of information to be reported on.

To demonstrate its commitment to the achievement and maintenance of internationally recognised corporate governance standards and principles, and in particular its sustainability performance, Sanlam recently participated in a comprehensive assessment process, the JSE Socially Responsible Investment (SRI) Index 2005. This index is the first of its kind in an emerging market and was launched by the JSE Securities Exchange South Africa in May 2004. The index features listed companies that achieve the requisite score in relation to a set of criteria that measure triple bottom line commitment and performance.

Sanlam has been informed that it has met all of the criteria and has qualified for the index, although the results are preliminary at the time of writing, with final confirmation expected in March 2005.

THE BOARD AND BOARD COMMITTEES*

The board charter

The board has recently approved a revised board charter to regulate the way business is conducted by the board in accordance with the principles of sound corporate governance. The board charter, which is modelled on the charter principles recommended by King II, incorporates the powers of the board, providing a clear division of responsibilities and accountability of the board members, collectively and individually, to ensure a balance of power and authority. The annual self-evaluation process to review the effectiveness of the board, its committees and individual directors has also been entrenched.

**As at 31 December 2004*

The committee charters

All the board committee charters have recently been reviewed and the changes are in the process of being implemented.

The Sanlam board of directors

Composition of the board

The board recognises that its effectiveness depends largely on its balanced structure and composition. There is an appropriate balance of power and authority on the board.

The board recognises that its effectiveness depends largely on its balanced structure and composition.

Particulars of the Sanlam board members and their capacities, categorised as executive, non-executive and independent using the guidelines in King II, are set out on page 65. The roles of chairman and chief executive officer are separated, with Roy Andersen and Johan van Zyl appointed to these positions respectively. A third of all board members retire every year at Sanlam's annual general meeting (AGM). The independent and non-executive directors on the Sanlam board are highly respected and experienced, having the required integrity, knowledge and skills to make sound judgements on various key issues relevant to the business of Sanlam, independent of management. This includes issues of strategy, performance, human resources, transformation, diversity, employment equity and corporate governance. Senior members of management attend or are invited to certain of the board meetings.

The major operating companies in the Group each have their own unitary board structures comprising both executive and non-executive directors, as well as the appropriate committees, in accordance with King II principles.

Board meetings

The board meets at least five times a year to consider business philosophy and strategic issues, set risk parameters, approve financial results and budgets and monitor the implementation of delegated responsibilities. Feedback from its committees, as well as a number of key performance indicators, variance reports and industry trends are considered.

The Sanlam board of directors		
Director	Executive (E) Non-executive (N) Independent (I)	Changes 2004 Appointment (A) Resignation (R)
RC Andersen (chairman)	I	3/6/2004 (A)
MMM Bakane-Tuoane	I	1/1/2004 (A)
DC Brink	I	
AS du Plessis	N	
FA du Plessis	I	1/1/2004 (A)
WG James	I	1/3/2004 (A)
VP Khanyile	I	
CE Maynard	I	
MV Moosa	I	3/6/2004 (A)
PT Motsepe	N	1/4/2004 (A)
PdeV Rademeyer	E	
M Ramos	I	3/6/2004 (A)
GE Rudman	N	
RV Simelane	N	1/4/2004 (A)
ZB Swanepoel	N	1/4/2004 (A)
E van As	I	
JJM van Zyl	I	
J van Zyl	E	
T Vosloo	I	2/6/2004 (R)
NT Chistodoulou	Alternate	1/9/2004 (R)
SC Gilbert	Alternate	1/9/2004 (R)
L Lambrechts	Alternate	1/9/2004 (R)
JHP van der Merwe	Alternate	1/9/2004 (R)

Composition of the board at 31 December 2004:
13 male, 5 female and 12 white, 6 black.

JOHAN BESTER
Company secretary

Board committees

The board has established a number of standing committees with specific responsibilities defined and approved by the board, to 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. There is full disclosure and transparency from these committees to the board and, at each board meeting, the chairperson of each of the committees makes a presentation to the board on issues discussed at the committee meeting. The chairpersons of the committees attend the AGM and are available to respond to any questions.

In general and for the period under review, all the committees are satisfied that they have fulfilled their responsibilities in terms of their respective charters.

Audit and Risk committee

Director	Executive (E) Non-executive (N) Independent (I)	Appointments 2004
GE Rudman (chairman)	N	3/2/2004
FA du Plessis	I	3/2/2004
VP Khanyile	I	1/9/2004
CE Maynard	I	
E van As	I	1/9/2004

Composition: 3 male, 2 female and 4 white, 1 black.

The primary function of the Audit and Risk committee is to assist the board in fulfilling its responsibility in financial matters and risk management activities.

The committee comprises four independent directors and one non-executive director who became independent on 1 January 2005. All the directors are financially literate, with the majority possessing strong financial expertise.

The committee meets at least four times a year. The chief executive and the financial director, members of senior management, the chief audit executive, chief risk officer and the external audit partners also attend committee meetings.

This committee's charter has been reviewed by the board to ensure that it is aligned with King II and international best practice. South African GAAP is followed for financial reporting and preparations are being made to implement International Financial Reporting Standards (IFRS).

Human Resources committee

Director	Executive (E) Non-executive (N) Independent (I)	Appointments 2004
JJM van Zyl (chairman)	I	2/3/2004
RC Andersen	I	3/6/2004
DC Brink	I	
PT Motsepe	N	1/4/2004

Composition: 4 male and 3 white, 1 black.

This committee is responsible for managing the Group's human intellectual capital and transformation processes. In particular, the committee approves executive appointments and reviews succession planning, including the position of Group CEO. The committee is also responsible for the remuneration strategy of the Group, the approval of guidelines for incentive schemes and the annual determination of remuneration packages for Sanlam's executive committee. The committee takes cognisance of local and international industry benchmarks, ensures that the incentive schemes are aligned with good business practice and that excellent performance is rewarded. It also makes recommendations to the board regarding directors' remuneration.

The committee meets four times a year. Executive directors, management representatives and the head of Group HR also attend the meetings.

Nominations committee

Director	Executive (E) Non-executive (N) Independent (I)	Appointments 2004
RC Andersen (chairman)	I	3/6/2004
DC Brink	I	
MMM Bakane-Tuoane	I	2/3/2004
M Ramos	I	1/9/2004

Composition: 2 male, 2 female and 3 white, 1 black.

The committee is chaired by the chairman of the board and is responsible for making recommendations to the board on all new appointments to the board and its committees. A formal process of reviewing the balance and effectiveness of the board and its committees, identifying the skills needed and the individuals to provide such skills in a fair and thorough manner, is required of the committee to ensure the board and its committees remain effective and focused. This includes a regular review of the composition of the board committees. It also includes assisting the chairman with the annual evaluation of board members' performance. It is responsible for identifying the appropriate board candidates and evaluating them against the specific disciplines and areas of expertise required. The board approves all interim appointments.

The committee meets at least once a year.

Committee of independent directors

Director	Appointments 2004
JJM van Zyl (chairman)	
MMM Bakane-Tuoane	1/1/2004
DC Brink	
FA du Plessis	1/1/2004
WG James	1/3/2004
VP Khanyile	
CE Maynard	
MV Moosa	3/6/2004
M Ramos	3/6/2004
E van As	

Composition: 6 male, 4 female and 6 white, 4 black.

The Committee of independent directors comprises all the independent directors, with the exclusion of the chairman and deputy chairman of the board. The chairman of the committee is the lead director, as elected annually by the independent directors. This committee is responsible for the independent governance and functioning of the board and for evaluating the performance and effectiveness of the chairman of the board on an annual basis. In this regard the committee will take note of the role of the chairman as set out in the board charter.

The committee meets immediately after the conclusion of board meetings.

Transformation committee

Director	Executive (E) Non-executive (N) Independent (I)	Appointments 2004
MV Moosa (chairman)	I	1/9/2004
DC Brink	I	
WG James	I	2/3/2004
RV Simelane	N	1/4/2004

Composition: 3 male, 1 female and 1 white, 3 black.

The main responsibilities of the committee are to recommend for approval, monitor and advise on matters pertaining to black economic empowerment throughout the Group.

The committee meets at least twice a year.

Safety, Health and Environmental (SHE) committee

Director	Executive (E) Non-executive (N) Independent (I)	Appointments 2004
ZB Swanepoel (chairman)	N	1/9/2004
PdeV Rademeyer	E	2/3/2004
WG James	I	2/3/2004
J van Zyl	E	2/3/2004

Composition: 4 male and 3 white, 1 black.

Suitably qualified persons may be co-opted onto the committee when necessary to render specialist services.

The committee was established in March 2004 and its main responsibility is to recommend for approval, monitor and advise on matters pertaining to the safety, health and environmental matters throughout the Group.

The committee meets at least twice per year.

The executive committee

Name of committee member	Appointments 2004
J van Zyl (CEO) (chairman)	
NT Christodoulou	
T Gamedze	1/7/2004
SC Gilbert	
M Jenks	1/5/2004
L Lambrechts	
JP Möller	
TI Mvusi	1/1/2004
PdeV Rademeyer	
CG Swanepoel	
JHP van der Merwe	

Composition: 9 male, 2 female and 9 white, 2 black.

The executive committee, which functions under the leadership of the Group CEO, is responsible for assisting the Group CEO in the operational management of Sanlam, subject to statutory and delegated limits of authority. Its main functions are strategic direction, co-ordination and monitoring performance. The committee comprises the Group CEO, the business heads, the chief financial officer, the chief actuary and selected senior group executives.

The committee generally meets every fortnight.

Ad hoc board committees

The board has the right to appoint and authorise special ad hoc board committees to perform specific tasks. The appropriate board members make up these committees.

COMPANY SECRETARY AND PROFESSIONAL ADVICE

The Sanlam board appoints the company secretary. This official is also the public officer, compliance officer and the delegated information officer, and is responsible for the execution of all relevant statutory and regulatory requirements applicable to those positions.

All directors have unlimited access to the services of the company secretary, who is accountable to the board for ensuring that proper corporate governance and ethical principles are adhered to. All directors are entitled to seek independent professional advice concerning the affairs of the Group at Sanlam's expense.

Board member orientation and training are conducted in accordance with a comprehensive induction plan, designed to meet the individual needs and circumstances of each director, and approved by the board. The company secretary manages the induction programme.

The company secretary is a central source of guidance and advice to the company and to the board on matters of ethics and corporate governance. The company secretary communicates to shareholders as appropriate.

ALTERNATE DIRECTORS

The position of permanently appointed alternate directors on the board has been discontinued in 2004. However, the directors still have the right to appoint alternate directors to themselves, where required.

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Nomination committee ensures that the board's composition reflects demographic diversity. The board charter contains a policy detailing the procedures for appointment to the board, which appointments must be formal and transparent. Sanlam's articles of association empower the board to appoint a director until the next AGM if a vacancy exists. In terms of the articles, directors are subject to retirement by rotation every three years and, if available, are considered for re-appointment at AGM. Shareholders may also nominate directors for election at the AGM subject to formal, prescribed procedures. Abridged curriculum vitae of the nominated directors accompany the notice of the AGM. All directors are consequently appointed at the AGM by a shareholders' resolution.

ATTENDANCE OF MEETINGS

During the period under review the board and committee members' attendance was as follows:

Board meetings 2004:

Directors	Attendance 2004[(1)]
RC Andersen	4 of 4
MMM Bakane-Tuoane	9 of 10
DC Brink	9 of 10[(2)]
AS du Plessis	8 of 10[(2)]
FA du Plessis	10 of 10
WG James	4 of 9[(3)]
VP Khanyile	7 of 10
CE Maynard	9 of 10
MV Moosa	4 of 4
PT Motsepe	7 of 7
PdeV Rademeyer	10 of 10
M Ramos	2 of 4
GE Rudman	8 of 10
RV Simelane	7 of 7
ZB Swanepoel	5 of 7
E van As	8 of 10
JJM van Zyl	9 of 10
J van Zyl	10 of 10
T Vosloo	6 of 6

[(1)] *Includes five special board meetings called at short notice.*
[(2)] *Recused from one meeting due to the matters on the agenda.*
[(3)] *The board approved attendance only from July 2004 as WG James was on an overseas sabbatical.*

Committee meetings 2004:

Meetings	Audit and Risk	HR	Nomination	Independent directors	Trans-formation	Safety, Health and Environment
Planned	4	4	1	1	1	1
Held	4	10 (6 special)	1*	1	1	1
RC Andersen (appointed 6/2004)		2	1			
MMM Bakane-Tuoane			0	1		
DC Brink		8	1	1	1	
FA du Plessis	4			1		
WG James				1	1	1
VP Khanyile (appointed 9/2004)	1				–	
CE Maynard	4				0	
MV Moosa				1	1	
PT Motsepe (appointed 4/2004)		2				
PdeV Rademeyer						1
M Ramos (appointed 9/2004)			–	–		
GE Rudman	4					
RV Simelane					1	
ZB Swanepoel						0
E van As (appointed 9/2004)	0			–		
JJM van Zyl		10		1		
J van Zyl						1
T Vosloo (resigned 6/2004)		4				

**In addition, combined meetings with the HR committee were held.*

Non-attendance is indicated by a "0", whereas a "–" indicates no meetings held subsequent to the director's appointment to the committee.

DEALINGS IN JSE SECURITIES

Sanlam complies with the JSE Securities Exchange (JSE) requirements in respect of the share dealings of its directors. In terms of Sanlam's closed period policy all staff are precluded from dealing in Sanlam securities from 1 January and 1 July, until the release of the Group's final and interim results respectively. The same arrangements apply for closed periods during other price-sensitive transactions for directors, officers, participants in the share incentive scheme and staff who may have access to price-sensitive information. A pre-approval process for all dealings in Sanlam securities by directors and selected key employees is strictly followed. Details of directors' dealings in Sanlam securities are disclosed to the JSE through SENS. Even more stringent trading policies regarding personal transactions in all financial instruments are enforced at Sanlam's investment management companies.

COMMUNICATION WITH STAKEHOLDERS

The board appreciates the information needs of all its stakeholders, and highly regards open and meaningful dialogue with all who are involved with Sanlam. It ensures that stakeholders are kept appropriately informed of matters affecting the Group. Reports and announcements to all audiences, meetings with analysts and journalists, as well as the Sanlam website are used to provide relevant information. Open lines of communication are maintained to ensure transparency and optimal disclosure. All board members are expected to attend Sanlam's AGM, to which all shareholders are invited.

Sanlam's investor relations department is responsible for ensuring appropriate communication with shareholders and the investment community. Contact with domestic and international institutional shareholders, fund and asset managers, and investment analysts is maintained regularly by means of a comprehensive investor relations programme. This includes meetings and investor road shows conducted by executive management.

The board appreciates the information needs of all its stakeholders, and highly regards open and meaningful dialogue with all who are involved with Sanlam.

SANLAM'S REMUNERATION PHILOSOPHY

The Group Human Resources committee is responsible for the remuneration strategy of the Group, the approval of mandates for incentive schemes within the Group and the determination of the remuneration of executive committee members, relative to local and international industry benchmarks. It also makes recommendations to the board ragarding the remuneration of Sanlam directors.

The Group believes that appropriate remuneration for executive directors is inextricably linked to the development and retention of executives and the ability to attract people of the highest calibre.

Employees in general

The following principles are used to determine appropriate remuneration levels:

- All remuneration principles are structured to provide clear differentiation between individuals with regard to performance;
- A clear and meaningful distinction is made between high performers, average performers and under-performers and remuneration is distributed accordingly;
- Strong incentives are created for superior performance by individuals and teams;
- Top contributors are rewarded significantly higher bonuses;
- Under-performers are not rewarded and active steps are taken to encourage the individual either to improve performance or to leave Sanlam, in line with accepted practices.

Executive directors

The package for executive directors includes a base salary, a variable performance-linked payment and an allocation of share options. All of these are established in terms of the remuneration principles outlined. In line with the Group's remuneration philosophy, remuneration is reviewed annually by the Human Resources committee after evaluating each executive director's performance, including that of the Group CEO.

Non-executive directors

Fee structures are recommended to the board by the Group Human Resources committee and reviewed annually with the assistance of external service providers. The committee takes cognisance of market norms and practices, as well as the additional responsibilities placed on board members by new acts, regulations and corporate governance guidelines.

Non-executive directors receive an annual fee for their input. In addition, a fee is paid for attending and contributing to board meetings. Sanlam pays for all travelling and accommodation expenses in respect of board meetings. The chairman receives a fixed annual fee that is inclusive of committee attendances.

Disclosure of individual directors' emoluments, as required in terms of the JSE Listings Requirements, is detailed below.

Directors' emoluments

Directors' emoluments for the year ended 31 December 2004 (R'000)

Name	Months in office	Salary/ fees	Bonus	Company contri-butions	Other benefits	Total
Executive directors						
PdeV Rademeyer	12	2 019	1 950	263	1 000	5 232
J van Zyl	12	3 358	5 250	330	–	8 938
Total executive directors		**5 377**	**7 200**	**593**	**1 000**	**14 170**
Alternate directors						
NT Christodoulou[1]	8	764	–	171	–	935
SC Gilbert[1 & 2]	8	1 176	1 836	–	203	3 215
L Lambrechts[1]	8	1 078	–	159	–	1 237
JHP van der Merwe[1]	8	1 139	–	174	–	1 313
Total alternate directors		**4 157**	**1 836**	**504**	**203**	**6 700**

Bonuses reflected are payable in 2005, based on the 2004 results and the formulae applicable for the different businesses.

Refer to page 65 for details of changes in directorships.

[1] *Resigned 1 September 2004.*

[2] *The bonus disclosed is an underprovision in respect of 2003, payable in the period prior to resignation as alternate director.*

Directors' emoluments for the year ended 31 December 2004 (R'000) *(continued)*

Name	Directors fees	Attendance and committees	Fees from group	Total
Non-executive directors				
RC Andersen (Chairman)[(1)]	438	–	–	438
MMM Bakane-Tuoane[(2)]	160	90	63	313
DC Brink	160	160	–	320
AS du Plessis	160	80	445	685
FA du Plessis[(2)]	160	100	139	399
WG James[(3)]	133	40	63	236
V Khanyile	160	70	92	322
CE Maynard	160	168	321	649
MV Moosa[(4)]	93	40	–	133
PT Motsepe[(5)]	180	92	–	272
M Ramos[(4 & 7)]	93	20	–	113
GE Rudman	160	120	381	661
RV Simelane[(5)]	120	70	54	244
ZB Swanepoel[(5)]	120	50	–	170
E van As	160	118	23	301
JJM van Zyl	160	120	102	382
T Vosloo[(6)]	315	–	–	315
Travel and subsistence	227	–	–	227
Total non-executive directors	**3 159**	**1 338**	**1 683**	**6 180**

[(1)] *Appointed non-executive director and chairman on 3 June 2004.*
[(2)] *Appointed 1 January 2004.*
[(3)] *Appointed 1 March 2004.*
[(4)] *Appointed 3 June 2004.*
[(5)] *Appointed 1 April 2004.*
[(6)] *Resigned as non-executive director and chairman on 2 June 2004*
[(7)] *Fees are payable to the director's employer, Transnet*

Directors' emoluments for the year ended 31 December 2003 (R'000)

Name	Months in office	Salary/ fees	Bonus	Company contri-butions	Other benefits	Total
Executive directors						
PdeV Rademeyer	12	2 062	1 600	238	–	3 900
PC le Roux[(1)]	5	872	–	92	3 000	3 964
J van Zyl	12	3 003	4 697	260	69	8 029
Total executive directors		**5 937**	**6 297**	**590**	**3 069**	**15 893**
Alternate directors						
NT Christodoulou	12	1 094	560	243	–	1 897
M Ferreira[(2)]	8	889	–	177	–	1 066
SC Gilbert[(3)]	6	715	1 600	–	120	2 435
L Lambrechts[(4)]	7	839	810	125	–	1 774
BF Mohale[(1)]	5	452	–	87	523	1 062
JAA Samuels[(1 & 5)]	5	1 231	–	231	189	1 651
CG Swanepoel[(1)]	5	529	–	80	–	609
JHP van der Merwe[(4)]	7	854	2 875	133	–	3 862
Total alternate directors		**6 603**	**5 845**	**1 076**	**832**	**14 356**

Bonuses reflected were payable in 2004, based on the 2003 results and the formulae applicable for the different businesses.

[(1)] *Resigned 31 May 2003.*
[(2)] *Resigned 28 August 2003.*
[(3)] *Appointed 14 July 2003.*
[(4)] *Appointed 31 May 2003.*
[(5)] *Payment was made in pound sterling. Conversion to rand was done at the average exchange rate for the year.*

Directors' emoluments for the year ended 31 December 2003 (R'000) *(continued)*

Name	Directors fees	Attendance and committees	Fees from group	Total
Non-executive directors				
JPL Alberts[1]	161	238	244	643
DC Brink	161	144	–	305
AS du Plessis[2]	161	90	266	517
TS Gcabashe[3]	54	33	–	87
V Khanyile	161	70	52	283
CE Maynard	161	154	361	676
DNM Mokhobo[1]	161	77	101	339
AF Perold[1 & 4]	377	32	362	771
GE Rudman	161	141	304	606
PEI Swartz[1]	161	174	–	335
E van As[5]	155	104	–	259
JJM van Zyl	161	146	127	434
T Vosloo (Chairman)	631	–	–	631
Travel and subsistence	405	–	–	405
Total non-executive directors	**3 071**	**1 403**	**1 817**	**6 291**

[1] *Resigned 31 December 2003.*
[2] *Payments of R287 000 were not reflected in the above schedule as published in the 2003 Annual Report.*
[3] *Resigned 1 May 2003.*
[4] *Payment was made in US dollars. Conversion to rand was done at the applicable exchange rates on payment dates.*
[5] *Appointed 15 January 2003.*

Interest of directors in share capital at the date of this report

Name	Beneficial	Non-beneficial	Options
Executive directors			
PdeV Rademeyer	84 335	191 340	1 468 995
J van Zyl	193 693	–	4 064 724
Total executive directors	**278 028**	**191 340**	**5 533 719**
Non-executive directors			
RC Andersen	911	–	–
MMM Bakane-Tuoane	–	–	–
DC Brink	38 899	–	–
AS du Plessis	–	–	222 222
FA du Plessis	300	433	–
WG James	–	–	–
VP Khanyile	–	–	–
CE Maynard	–	–	–
MV Moosa	–	–	–
PT Motsepe	–	–	–
M Ramos	–	–	–
GE Rudman	135 661	119 364	–
RV Simelane	–	–	–
ZB Swanepoel	–	–	–
E van As	904	1 000	–
JJM van Zyl	9 559	–	–
Total non-executive directors	**186 234**	**120 797**	**222 222**
Total	**464 262**	**312 137**	**5 755 941**

The majority shareholder of Ubuntu-Botho is Sizanani-Thusanang Helpmekaar (Proprietary) Limited, the majority shares of which are beneficially owned and controlled by Patrice Motsepe or a trust or other entity created for his benefit or that of his immediate family. As a result he is the indirect beneficial shareholder of a part of the 226 000 000 Sanlam ordinary shares and a part of the 56 500 000 Sanlam 'A' deferred shares held by Ubuntu-Botho.

Interest of directors in share capital at the date of the previous report

Name	Beneficial	Non-beneficial	Options
Executive directors			
PdeV Rademeyer	52 657	24 061	1 611 169
J van Zyl	1 051	–	4 063 018
Total executive directors	**53 708**	**24 061**	**5 674 187**
Non-executive directors			
DC Brink	38 899	–	–
AS du Plessis	–	–	666 666
VP Khanyile	–	–	–
CE Maynard	–	–	–
GE Rudman	135 661	119 364	495 935
E van As	1 904	–	–
JJM van Zyl	9 559	–	–
T Vosloo	12 976	–	–
Total non-executive directors	**198 999**	**119 364**	**1 162 601**
Alternate directors			
NT Christodoulou	13 116	40 319	1 013 496
SC Gilbert	–	–	–
L Lambrechts	15 234	–	1 196 367
J van der Merwe	1 168	–	4 580 928
Total alternate directors	**29 518**	**40 319**	**6 790 791**
Total	**282 225**	**183 744**	**13 627 579**

Directors' share incentives

Details regarding the directors' restricted share options held under the Sanlam Limited Share Incentive Scheme, and the financial years during which they become unconditional, are as follows (in thousands):

Name	Totals 31 Dec 2003	Released	New	Dec 2004	Unre-stricted	Becoming unrestricted in 2005	2006	2007	2008	2009	Strike price range	Average price
Executive directors												
PdeV Rademeyer	1 611	596	454	1 469	79	349	245	353	307	136	R6,00 – R9,80	R7,84
J van Zyl	4 063	507	508	4 064	–	417	1 489	1 042	964	152	R6,03 – R9,80	R6,43
Totals: Executive directors	5 674	1 103	962	5 533	79	766	1 734	1 395	1 271	288		
Non-executive directors												
AS du Plessis	667	445	–	222	222	–	–	–	–	–	R6,00	R6,00
GE Rudman	496	496	–	–	–	–	–	–	–	–	–	–
Totals: Non-executive directors	1 163	941	–	222	222	–	–	–	–	–		
Grand totals	6 837	2 044	962	5 755	301	766	1 734	1 395	1 271	288		

CORPORATE CODE OF ETHICAL CONDUCT

Business ethics and organisational integrity

The Sanlam group remains committed to the highest standards of integrity and ethical conduct in dealing with all stakeholders. This commitment was reaffirmed at board level by the launch of an amended code of ethics for the Group in September 2004.

A Group ethics committee, under the chairmanship of the chief actuary, was reconstituted to represent all the individual business clusters. The Group ethics committee monitors compliance with the principles underlying the code of ethics and investigates all matters brought to its attention. A facility for the reporting of unethical conduct, the Sanlam fraud and ethics hotline, is available to all staff members in the Group. This hotline allows staff members to make anonymous reports, and guarantees the protection of their identity, in accordance with the provisions of the Protected Disclosures Act, 2000.

In terms of Sanlam's code of ethics, no director or employee within the Group may offer or receive any gift, favour or benefit that may be regarded as an attempt to exert influence in unduly favouring any party. Sanlam, therefore, has a formal Group gift/gratification policy to provide for the official declaration and recording of any corporate gift received or given.

The board is satisfied that adequate grievance and disciplinary procedures are in place to ensure enforcement of the code of ethics and to address any breaches of the code. The results of a climate study on ethics conducted at the end of 2003 confirmed that there are no areas of major concern or major incidence of unethical conduct in the Group. The ethical climate in the Group and compliance with the code of ethics will be monitored on an ongoing basis and reported to the board. The Ethics committee is tasked with implementing a programme in 2005 to monitor compliance, to the satisfaction of the board, in accordance with the King II recommendations on organisational integrity and ethical conduct.

Compliance

Sanlam's code of ethics, underwritten by the board, clearly states that the Sanlam group is committed to comply with all applicable legislation, common law, industry regulation and codes as well as the Group's policies, procedures and approval frameworks at all times.

Statutory requirements applicable to the various business units in the Group differ and, therefore, require bespoke compliance procedures. For this reason the compliance function is decentralised. Compliance functions in the various business units are performed by compliance officers with specialised knowledge of the relevant regulatory requirements.

To ensure continual implementation and monitoring of new regulatory requirements and possible non-compliance matters, compliance officers in the business units are expected to submit reports to the various risk managers on a monthly basis.

Non-compliance issues are reported in terms of the formal escalation policy. The escalation policy has been adopted on a group wide basis and ensures that non-compliance risks receive the appropriate attention.

During the period under review, the Group complied with all the necessary regulatory requirements in all material respects.

Forensics

The Sanlam group recognises that financial crime and associated unlawful conduct are in absolute conflict with the principles of ethical behaviour as set out in the code of ethics and threaten the organisational integrity of the Group.

A new financial crime combating policy for the Sanlam group has been adopted to counter the threat of financial crime and associated unlawful conduct. A zero tolerance approach is applied in combating financial crime and all offenders will be prosecuted.

A Group Forensic Services function, was established at Group level to ensure the prevention, detection and investigation of incidents of unlawful conduct of such a nature that they may impact on the Group or the executive of an individual business cluster. Group Forensic Services is also responsible for the formulation of Group standards in respect of combating unlawful conduct and the implementation of measures to monitor compliance with these standards.

The chief executives of the individual business clusters are responsible for the implementation of the policy in their respective business clusters and are accountable to the Group CEO and the board of Sanlam Limited in this regard.

Quarterly reports are submitted by Group Forensic Services to the Sanlam Limited Audit and Risk committee on the incidence of financial crime and unlawful conduct in the Group and on the measures taken to prevent, detect, investigate and deal with such conduct.

STRATEGIC RISK MANAGEMENT

The board accepts ultimate responsibility for risk management within the Group and the board utilises various specialists and committees to execute its responsibilities in this regard.

The Audit and Risk committee is tasked by the board to ensure that its risk management responsibilities are fulfilled. It analyses the status of the various risks and provides reports to the board on a regular basis.

The primary objective of strategic risk management (SRM) is to optimise the Group's risk adjusted return on capital and embedded value. To ensure an optimal return, an organisation assumes an acceptable level of risk in conducting its operations. This level of risk is dependent on the organisation's risk appetite, as determined and managed by the board. The role of risk management is to enhance the organisation's ability to manage these risks, not necessarily to avoid or eliminate them, and ensure that the overall risk profile remains acceptable. This may involve various risk responses or a combination thereof, namely acceptance, mitigation and/or avoidance of the risk. The processes in place provide reasonable, but not absolute assurance, that the risks are adequately managed. These processes have been in place throughout the period under review, and cover all material activities of the Group.

The SRM policy evaluates risks as a combination of impact and likelihood. The SRM policy is regularly reviewed and updated where necessary. Amendments to the SRM policy require board approval. Risks characterised by a low likelihood in conjunction with a catastrophic impact, are regarded as unacceptable, and are actively managed. The SRM policy sets out the minimum standard that the various businesses have to adopt and adhere to.

The Group risk management function, headed by the chief risk officer, is tasked with ensuring adherence to the SRM policy. The chief risk officer has direct access to the Sanlam Audit and Risk committee, Sanlam executive committee members and the executive committee members of the various businesses.

To ensure that risks affecting the Group are suitably monitored and addressed, formal quarterly meetings are held between Group risk management and the business units. Risks are either reported in terms of the formal escalation policy or as part of regular feedback by the various businesses to Group risk management. The escalation policy has been adopted on a group wide basis and ensures that risk management criteria set by the Sanlam board receive the necessary attention. Risks are also evaluated within the various businesses. The outcome of the above processes is reported to the Sanlam Audit and Risk committee and board.

A disaster is defined as an event that has a significant impact on the Group's operating activities. Documented policies, plans and procedures are in place to enable the Group to continue its critical business processes in the event of a disaster. Plans, procedures and policies are revised and tested on a regular basis.

In 2004, a review of the risk management processes within the Sanlam group was conducted. This was facilitated and overseen by Sanlam group internal audit. This review found the processes to be effective.

ACCOUNTING, AUDITING AND ACTUARIAL

Internal audit

The Group's internal audit function operates on a decentralised basis and is co-ordinated at group level by the chief audit executive of Sanlam Limited. A board-approved internal audit charter governs internal audit activity within the Group. It carries out regular risk-focused reviews of internal control and risk management systems. The chief audit executive of Sanlam Limited is appointed in consultation with the chairman of the Audit and Risk committee and has unrestricted access to the chairman of the committee. The authority, resources, scope of work and effectiveness of the functions are reviewed regularly.

The Sanlam group remains committed to the highest standards of integrity and ethical conduct in dealing with all stakeholders.

External audit

The external auditors provide an independent assessment of certain systems of internal financial control and express an independent opinion on the annual financial statements. The external auditors complement the work of the internal audit function.

Non-audit services rendered by the external auditors are strictly governed by a Group policy. A compulsory rotation of auditing partners has also been implemented.

Going concern

The board regularly considers and records the facts and assumptions on which it relies to conclude that Sanlam will continue as a going concern. The directors considered a number of facts and circumstances and are of the opinion that adequate resources exist to continue business in the foreseeable future and that Sanlam will remain a going concern in the year ahead. The board's statement to this effect is also contained in the statement on the responsibility of directors in the annual financial statements.

Statutory actuary

The chief actuary of Sanlam Limited, who is the statutory actuary of Sanlam Life Insurance Limited (Sanlam Life), is subject to the disciplines of professional conduct and guidance. He reports to the directors of Sanlam Life and to the regulatory authorities. He has full access to the board and must report completely and impartially to these bodies on the financial soundness of Sanlam Life based on the actuarial valuations of its assets, liabilities and capital adequacy requirements.

In his reporting he is required to take policyholders' reasonable expectations duly into consideration.

SANLAM'S SMOOTHED BONUS GOVERNANCE

Governance structures

Sanlam has a sound governance structure to manage its smoothed bonus business, which forms a substantial proportion of Sanlam Life's liabilities. A number of parties ensure the appropriate governance of smoothed bonus business, including:

- The asset-liability committee (ALCO), chaired by the statutory actuary and comprising members from the executive committees of Sanlam Life Actuarial and Client Solutions, Sanlam Investment Management and Sanlam Capital Markets;
- The statutory actuary;
- The Sanlam Life board and the board's Audit, Actuarial and Risk committee, and committee of Independent Directors;
- The external auditors and their actuarial resources; and
- The Financial Services Board.

Governance practices

Governance practices can be classified under three main headings:

- Sound financial management of smoothed bonus business;
- Balancing the interests of policyholders and shareholders; and
- Managing policyholders' expectations.

(i) Sound financial management

(a) Product design and pricing

The various elements of product design and pricing must fit together, in particular

- The nature of bonuses declared – partially or fully vesting, declared annually with adjustable interim bonuses until the next declaration or monthly declarations;
- Early withdrawal benefits, where market value adjustments are used to preserve equity between withdrawing and remaining members; and
- Pricing and reserving for guarantees provided.

(b) Separation of assets

It has been the practice for many years to establish separate investment portfolios for shareholders' funds and policyholders' funds, the latter being further subdivided for different investment products, tax funds and originaling countries to facilitate the implementation of the appropriate investment policies and equitable bonus declarations.

(c) Investment policy

ALCO oversees the investment policy for the various smoothed bonus portfolios. The aim is to find the optimum balance between high investment returns (to be able to declare competitive bonus rates) and stable investment returns, given the need to meet guaranteed benefits and to support the granting of stable bonus rates.

The requirements for the investment management of each portfolio are set out in investment guidelines, which cover *inter alia* the following:

- Limitations on exposure to volatile assets;
- The benchmarks for the performance measurement of each asset class and limits on deviations from these benchmarks;
- Credit risk limits;
- Limits on asset concentration – with regard to strategic investments, the exposure of policyholders' portfolios to these investments is based on portfolio investment considerations and restricted with reference to a specific counter's weight in the benchmark portfolio;
- Limits on exposure to some particular types of assets, such as property and hedge funds;
- Regulatory constraints; and
- Fund performance – benchmarks against which the investment manager is measured.

Feedback on the investment policy and its implementation and the performance of the smoothed bonus portfolios is provided quarterly to the Sanlam Life board.

(d) Bonus declarations

The approach to bonus declarations is set out in a bonus philosophy, as well as more specific bonus rules. Both the bonus philosophy and rules are approved by the Sanlam Life board. A committee of the board approves the bonus rates that have been determined in accordance with the bonus philosophy and rules.

(e) Bonus philosophy

Sanlam Life's bonus philosophy is that the underlying assets for a particular group of smoothed bonus policies must, over time, be used for the benefit of those policyholders subject to the shareholders' profit entitlement rules. A reduction in bonus rates, therefore, does not result in an increased transfer of charges from the portfolio to shareholders.

(f) Bonus rules

The bonus rules give practical effect to the bonus philosophy and aim to provide a reasonable compromise between smoothing the volatility of investment returns and equity among different generations of policyholders.

The approach is to base bonus rates on:

- The expected long-term investment return, taking into account the asset composition of the particular portfolio, tax and expense charges; with
- An adjustment to eliminate surpluses or deficits in the portfolio over three to four years.

(ii) Balancing the interests of policyholders and shareholders

(a) Profit entitlement rules

Shareholders must be compensated for the use of capital needed to conduct smoothed bonus business. Charges (for expenses, the expected cost of guarantees and a profit margin) levied against a portfolio are based on profit entitlement rules that are approved by the statutory actuary and the Sanlam Life board. In the event of the pre-demutualisation policies the statutory actuary has to certify that changes in charges are fair in relation to charges in the market and inform the Financial Services Board of such changes.

(b) Financial support for portfolios

It is a statutory requirement to provide financial support under certain circumstances to under-funded portfolios. The Sanlam Life board may also decide to provide support under other circumstances if it is deemed to be in shareholders' interests.

(iii) Managing policyholders' expectations

Managing policyholders' expectations is of particular importance for products where the insurer exercises discretion with regard to the size of benefit payments. Sanlam, therefore, pays particular attention to:

- Accuracy and ease of understanding of marketing material and policy contracts;
- Illustrating the effect on policy benefits of different scenarios in line with LOA requirements; and
- Disclosure of under-funded portfolios as required by professional guidance from the Actuarial Society of South Africa.

When smoothed bonus portfolios are severely under-funded, new entrants at the time would get poor value for money. Under these circumstances Sanlam will consider whether the portfolio should be closed for new business and a new bonus series opened or if new entrants should be compensated in another way.

SANLAM'S REINSURANCE POLICY

Sanlam makes use of reinsurance to:

- Access underwriting expertise;
- Access product opportunities;
- Enable it to underwrite risks greater than its own risk appetite; and
- Protect its mortality/risk book against catastrophes.

The counter party risks of reinsurers are managed under the Group's credit risk framework.

The Sustainability Report sets out from the premise that transformation, as it pertains to national policies, such as black economic empowerment, are logical components of the sustainability agenda of all truly South African companies.

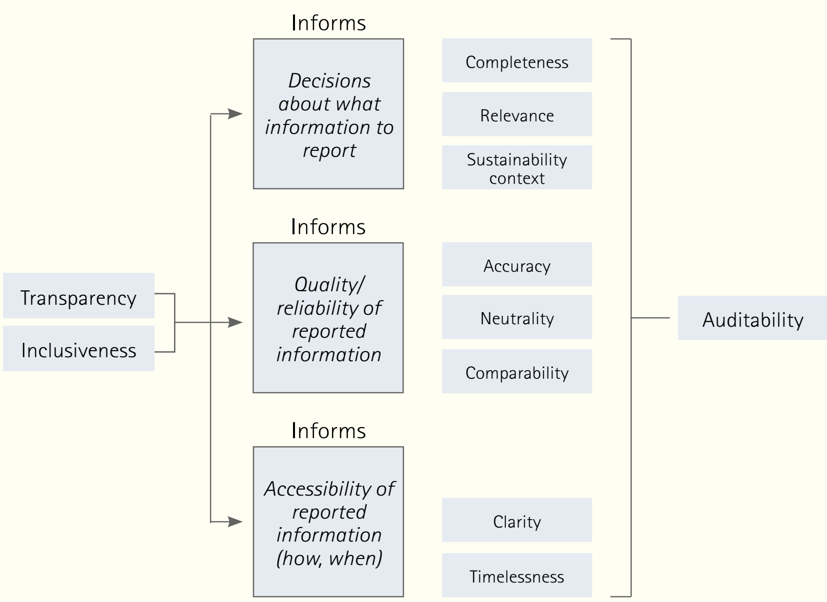
INTRODUCTION

Sanlam's reporting framework and guiding principles

Sanlam is committed to engaging with its stakeholders openly and credibly, and continues to evolve its reporting processes to present a full view of its business from both a quantitative and qualitative perspective.

The 2004 Sustainability Report seeks to develop Sanlam's reporting on transformation and sustainability issues. The Global Reporting Initiative's (GRI) sustainability reporting principles (illustrated) provide the model that guides Sanlam's approach to non-financial reporting.

GRI reporting principles



TEMBA MVUSI
chief executive group services

GROUP SERVICES

Management

TEMBA MVUSI	Chief executive
ESME ARENDSE	Corporate Social Investment
MARLENE BOSSETT	Public Affairs
JAN DE KLERK	Group IT
LERATO MOLEBATSI	Ubuntu-Botho

Structurally, the Sustainability Report breaks down into the triple bottom line (Sanlam's economic, social and environmental impacts), as well as by stakeholder groups with the aim of being able to provide stakeholders with specific information as efficiently as possible.

The Sustainability Report sets out from the premise that transformation, as it pertains to national policies, such as black economic empowerment (BEE), are logical components of the sustainability agenda of all truly South African companies.

It is important to note that:

- In addition to this abridged version of the Sustainability Report included in the Annual Report, a full Sustainability Report has been published online (www.sanlam.co.za), and can be made available to stakeholders in a variety of formats.
- The Sustainability Report provides key performance indicators, statistical data and the necessary narrative structure to offer an executive level overview of the transformation process within the Group as a component of its sustainability initiatives.
- Pending industry agreement on aspects of the FSC scorecard, Sanlam has concentrated on putting the internal structures in place to measure and report on the Group's BEE efforts. Sanlam will publish its FSC scorecard according to the timetable set once agreement has been reached. In the interim, this report covers all the pillars of the FSC scorecard and provides key data and statistical information for a year-on-year overview of Sanlam's transformation progress.
- HIV/Aids is dealt with in a separate section, in view of its impact on all stakeholders and Sanlam's comprehensive strategy to deal with its associated risks in the marketplace, the workplace and the community.

Reporting recognition

- Sanlam's 2003 report won Best Annual Report in *IR Magazine's South African* annual awards, and was highly commended in the categories: Best Communication of BEE programme, Best Corporate Governance, Best Investment Community Meetings and the Grand Prix for Best Overall Investor Relations.
- Sanlam won *The Investment Analysts' Society of Southern Africa's* award for the best communication and reporting in the insurance sector for 2003.

OVERVIEW

Vision and strategy

Transforming for sustainability

As a truly South African company, Sanlam views transformation as a major business opportunity – to grow its business on broader and stronger foundations, to service traditional markets more effectively and access important new markets. It is seen as an opportunity to play a leading role in the development of a sustainable marketplace, and the only way to stay relevant and sustain profitable growth.

In essence, Sanlam's transformation agenda is a commitment to harnessing the incredible potential of our diverse society. It is also a commitment to bringing the past to bear on the future, and to make decisions based on a thorough understanding of the world in which we do business.

Sanlam's transformation objectives

- Sustainable, profitable growth through outstanding performance, measured not only by the financial bottom line but also the triple bottom line (economic, social and environmental impacts).
- Succeeding as a truly South African company and being recognised as a leading corporate citizen driving the prosperity and progress of the country, and increasingly, the African continent.
- Responding fully and proactively to national and sectoral objectives and policy.

Sanlam views transformation as the process of aligning its business with a dynamic environment to ensure sustainable profitability and value creation for all its stakeholders. Sanlam's transformation strategy, therefore, represents its response to the priorities of sustainable socio-economic development.

To be an integrated, world-class financial services organisation, Sanlam must transform in a way that allows it to operate effectively within global, African and South African contexts.

This means that Sanlam's transformation objectives must align fully with the relevant national and sectoral regulatory frameworks, *inter alia*, King II, the broad-based Black Economic Empowerment Act, Employment Equity Act, Skills Development and Training legislation, and the Financial Sector Charter. It also presupposes that Sanlam's transformation strategy, and indeed all its business efforts, be informed by effective and ongoing stakeholder engagement.

An important component of Sanlam's strategy over the last year has been to redefine Sanlam's brand. This was necessary to address legacy issues, ensure relevance and spearhead the Group's push into new market areas.

Sanlam is well aware that real transformation and sustainable performance is fundamentally about changing corporate culture, which is a complex endeavour. In a federally structured business, this is even more complex. Sanlam is targeting significant resources and senior expertise (both internally mandated executives and external advisors) towards the building of a Group culture that is fit for the future.

An important component of Sanlam's strategy over the last year has been to redefine Sanlam's brand.

To ensure sustainability, the Sanlam group culture is being defined by conduct beyond compliance, and entrenched without undermining the character of individual businesses by allowing an appropriate level of autonomy for effective operations. Behind each of the Group's businesses stands the formidable assurance of the Sanlam brand.

In summary, the Sustainability Report demonstrates:

- Sanlam's unwavering commitment to good corporate citizenship, robust governance and active internal and external transformation;
- Sanlam's commitment to disclosure, transparency and measurement, across the triple bottom line; and
- Sanlam's long-standing commitment to effective stakeholder engagement.

Sustainability performance recognition

Sanlam's submission to the JSE Securities Exchange's Socially Responsible Investment (SRI) Index has been approved in principle. The SRI Index showcases listed companies that demonstrate triple bottom line commitment and performance.

SANLAM'S ECONOMIC IMPACT

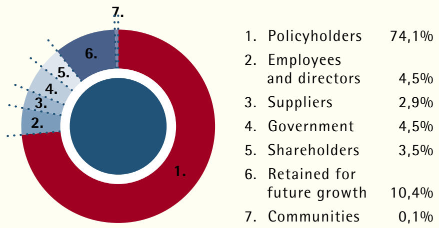
Value-added statement

Sanlam's impact on its major stakeholder groups can be summarised as follows:

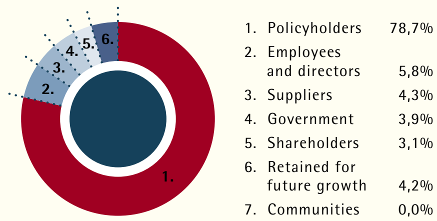
SANLAM GROUP VALUE-ADDED STATEMENT
for the year ended 31 December 2004

R million	2004	2003	Δ%
Premium income	29 975	26 929	11
Other operating income	2 104	2 380	(12)
Investment return	29 089	18 788	55
Commission and other sales remuneration paid to advisors and brokers	(1 832)	(1 715)	(7)
Wealth accumulated	59 336	46 382	28
Wealth distributed among stakeholders			
Policyholders			
Policyholder benefits, claims and increase in reserves	43 946	36 479	20
Employees and directors	2 651	2 687	(1)
Salaries and other staff costs	2 624	2 650	(1)
Directors' fees	27	37	(27)
Communities			
Corporate social investment and cause-related marketing	49	22	123
Suppliers			
Procurement of goods and services	1 734	1 977	(12)
Government	2 693	1 806	49
South African normal income tax	1 250	829	51
South African capital gains tax	975	530	84
Foreign tax	133	89	49
Tax on retirement funds	128	163	(21)
Indirect taxes and levies	207	195	6
Shareholders	2 075	1 451	43
Ordinary dividends paid to Sanlam Limited shareholders	1 082	972	11
Income attributable to minority shareholders	993	479	107
Retained for future growth	6 188	1 960	216
Retained earnings	5 789	1 604	261
Depreciation and amortisation	399	356	12
Wealth distributed	59 336	46 382	28

WEALTH DISTRIBUTED TO STAKEHOLDERS
2004



WEALTH DISTRIBUTED TO STAKEHOLDERS
2003



Empowerment financing

As a major financial services player, Sanlam is well placed to make a significant contribution to the advancement of BEE through empowerment financing, an important FSC requirement.

Sanlam was a pioneer in the area of empowerment financing and continues to be active in various aspects of this area. The Sanlam Development Fund was formally converted in 2002, whereupon the Group's focus switched to the Sanlam Development Fund of Funds (SDFoF). The SDFoF fund mangers are all black and, as such, the fund plays an important role in building specialist capacity in the financial sector as a whole.

The FSC breaks empowerment financing down into BEE transaction funding and targeted investments. BEE funding involves making capital available through debt or equity financing, while targeted investments focus on making finance available in defined sub-categories including transformational infrastructure development, supporting black SMEs, low-income housing and the development of rural agriculture.

Many of the specifics implied by the FSC requirements, and how they are scored, have yet to be agreed by the industry. In the interim, Sanlam has focused on establishing the working mechanisms to address all aspects of empowerment financing and to direct investing in a co-ordinated way. A central co-ordinating committee has been established, chaired by a member of the Sanlam Exco.
The implementation of Sanlam's BEE financing activities will be primarily resourced by Sanlam Investment Management.

Sanlam is actively involved in the process of negotiating the relevant FSC targets. The figures below represent estimates of current progress in this regard:

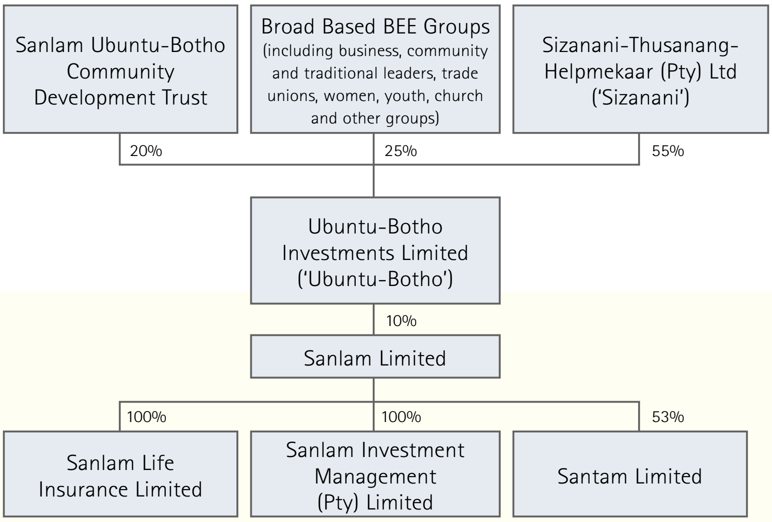
EMPOWERMENT FINANCING – FUNDING

	Rand million
BEE Transaction Funding	1 208
Targeted investments	2 941
Total	4 149

SANLAM'S SOCIAL IMPACT

Shareholders

Ubuntu-Botho shareholding structure



Ubuntu-Botho

The Ubuntu-Botho transaction has had a major impact on all aspects of the Sanlam business. The transaction provides the basis for Sanlam's long-term sustainability and licence to operate in new markets, via highly respected black leadership and a broad-based consortium of organisations, including trade unions, community organisations and other socio-political groups. Besides its broad-based shareholding, the structure makes provision for the Sanlam Ubuntu-Botho Community Development Trust, which will come into operation once the loans of Ubuntu-Botho have been repaid.

The Ubuntu-Botho structure will afford Sanlam credible access to a significantly expanded base of potential customers. Perhaps most significantly, this will ensure that Sanlam's expansion into new markets is premised on the delivery of relevant products and services, developed on a platform of authentic communication at grass roots level.

The implementation of the deal is progressing well, with the following main objectives:

- Agreeing the exact composition of the broad-based consortium;
- Extracting business value at every level; and
- Deciding how that value will be measured.

Sanlam's approach to formalising the deal structure has been to ensure that the broad-based Ubuntu-Botho shareholding is relevant and value-enhancing to Sanlam's business. Central to the effective integration of Ubuntu-Botho into the Sanlam business has been the establishment of the Sanlam Provincial Advisory Boards (SPABs). These have been specifically mandated to manage Sanlam's link, through Ubuntu-Botho, into communities across the country.

The SPABs have been tasked with the development of an effective mechanism to account for the explicit business value brought to Sanlam via new partners – over and above the considerable intangible value the Ubuntu-Botho deal has already brought to Sanlam.

Notably, Sanlam and Ubuntu-Botho will be developing a joint business plan in 2005, focusing on the development of business strategies and procedures through which to plan effectively, roll out and monitor the integration between Ubuntu-Botho shareholders and the rest of Sanlam's business.

The Group continues to move at a significant pace in extending its services to as many South Africans as possible, specifically in previously under-serviced areas.

Direct ownership

Ubuntu-Botho holds 10% voting rights and an 8% economic interest in the Sanlam group. The Group estimates that individual black shareholders hold a further 3%.

With Sanlam's demutualisation in 1998, free shares were given to an estimated 678 000 black policyholders. According to the Group's most accurate estimate, about 170 000 black individuals currently hold their shares in Sanlam.

Indirect ownership

Based on an analysis of pension funds and other institutional investors, and using the Group's discretion to classify these shareholders, Sanlam estimates that black or black-empowered groups indirectly own 16% of the Group.

MARGARET JENKS
chief executive group marketing and communications

GROUP MARKETING AND COMMUNICATIONS

Management

MARGARET JENKS	Chief executive
KOBUS ENGELBRECHT	Niche Markets
ZELDA KNOETZE	Retail Markets
THABIED MAJAL	Institutional Markets
HELENA THERON	Market Research
RUDIE VAN RENSBURG	Sponsorships
FRANS VAN RENSBURG	Group Communications

Control

The current composition of the Sanlam Limited board and executive management team is summarised below.

Board and executive	%
Black directors	33
Black women directors	11
Black executive managers	18

Clients

Broadening access to financial services

Sanlam opened 52 new offices in 2004, and the Group continues to move at a significant pace in extending its services to as many South Africans as possible, specifically in previously under-serviced areas. A Group solutions channel has been established in the Life Insurance cluster to focus on the entry-level segment and the unit's capacity was doubled during the year. The Independent Financial Services (IFS) cluster has also done a number of deals focusing on this segment, which are detailed in the IFS business review on page 143.

Sanlam has committed itself fully to the process being followed by the LOA, and is playing an active role in fostering industry-wide agreement on the finalising of FSC targets for access to financial services.

Sanlam is equally committed to the LOA's stakeholder engagement process, the organisation's drive to examine alternative product models for lower income groups and the finalisation of the mapping process to guide the roll out of services and products across the industry.

Given that the industry as a whole is only beginning to establish set targets, and that Sanlam is closely involved in the development of these targets, the Group has focused strongly on examining its internal structures and models of operation, and how these can be most effectively developed to be fully aligned to the LOA's aims.

Sanlam has taken active steps to widen the scope and abilities of its advisers and brokers. Through a strategic internal focus on the geographic and demographic make-up of its advisers, Sanlam is well-positioned to extend the accessibility of its product set to a far wider South African audience.

Broadening access to financial services – solutions overview

- The Halala savings product is currently available to satisfy entry-level investment needs.
- From a risk cover perspective, Sanlam offers entry-level clients a range of funeral and extended family funeral cover products, an accident cover product and a life cover product specifically designed to meet this section of the market's financial needs.
- Through Sanlam Group Solutions, Sanlam Life seeks to provide insurance and investment solutions and advice to a market earning less than R10 000 per month.
- Sanlam is in the process of rolling out a range of innovative products that will include:
  - a product that will provide retirement income
  - an all-purpose product for clients seeking a packaged insurance and investment offering.
- Sanlam also plans to launch an education savings product for the entry-level market during the course of 2005, where the minimum premium will be R80 per month for an investment of 10 years or longer.

Client protection and satisfaction

Sanlam was one of the financial services players to be awarded a licence by the Financial Services Board to trade under the new Financial Advisory and Intermediary Services Act (FAIS) legislation.

To ensure that its client protection standards are maintained, Sanlam has a monitoring system in place to ensure proper monitoring of the actions of advisors, consultants and actuaries.

The Sanlam monitoring system ensures:

- Advisers are trained, competent and trusted;
- Brokers are educated and trained; and
- Product providers and Sanlam intermediaries act with due care, diligence and integrity.

The Sanlam Distribution Academy ensures that advisor training meets the requirements of the public. Sanlam is an accredited provider of training, and learners earn credits on the Financial Planning Institute (FPI) continued education grid, as well as credits on the national learner record database.

In 2004, Sanlam Financial Advisers put all its advisers and managers through a "Trusted Advisor" training programme. This programme focused on the internationally recognised CFP sales process, and included ethics and FAIS training.

Training recognition

- Sanlam is a corporate member of the FPI, and actively supports and trains its advisers to become members.
- During 2004, Sanlam's Distribution Academy was licensed by Inseta to present the Wealth Management Qualification on NQF level 5.

In 2004, Sanlam invested in 838 training sessions for its call-centre staff and, during November 2004, client satisfaction with Sanlam service was measured at 90%.

Service recognition

- In 2004, the Contact Centre Networking Group judged the Sanlam Life Client Contact Centre to be one of the top three client contact centres in the country, via a comprehensive set of surveys conducted amongst Sanlam Life's clients.
- Sanlam Life also received the National Service Delight Index for 2004 award from the Department of Trade and Industry.

Employees

Sanlam approaches the management of its people informed by the understanding that they hold the key to its ability to operate profitably and transform successfully.

Sanlam's human resources (HR) strategy has three pillars:

1. The strategic management of human capital;
2. The facilitation of transformation within the Group; and
3. The incubation of a diverse and business-relevant Group culture.

In line with Sanlam's federal structure, this strategy is driven by Group Human Resources (HR) in partnership with individual businesses. Group HR operates as a specialist unit playing an active consulting role and ensuring compliance with regulatory frameworks, such as EE, across all individual businesses. The line management of individual business units are responsible for implementing the HR structures and processes most appropriate to their businesses, within the context set by Group strategy.

Sanlam's internal culture places a strong emphasis on skills development and training, and, concurrently, the fostering of a diverse and dynamic internal workplace, which capitalises on its inherent potential. By extension, Sanlam has always viewed its EE targets as far more than a legislative requirement. The Group has repeatedly stated that its EE strategy is a significant opportunity to reach and service new markets effectively.

HR benchmark highlights

Sanlam delivered positive results in a recently conducted international HR study, which provided a benchmark of the Group's performance with regard to HR issues. The results of the international study confirm the positive shift taking place within Sanlam, and specifically highlight the Group's strong position with regard to its future leaders and succession planning.

Skills development and training

- Approximately 4% of Sanlam's annual payroll is spent on training and development initiatives.
- Since the promulgation of the skills development legislation, Sanlam has successfully recouped the maximum levies available and has complied with all legislative requirements.
- All Sanlam programmes are developed according to international best practice, and are aligned to the South African National Qualifications Framework.
- To address its objectives of increasing the skills base of South Africa's youth and creating employment, Sanlam has recruited 30 learners as part of an internship programme agreed by the industry.
- To measure the development of HR, Sanlam has agreed in principle to use the international Investors in People (IiP) standard. Some businesses have commenced with the implementation of the standard and the rest of the businesses will do so at a later stage.
- Sanlam has met the accreditation requirements in terms of the South African Qualification Authority (SAQA), in turn being one of the first financial services companies to provide training at NQF Level 5, which in the past could only be obtained at institutes of higher learning.

Sanlam's skills development initiatives

Sanlam offers a combination of customised local and international business school accredited offerings, together with executive coaching and individualised learning.

Some of these offerings include:

- Sanlam Executive Development Programme (EDP)
- Sanlam Management Development Programme (MDP)
- Sanlam Leadership Development Programme (LDP)
- Sanlam Business Management Programme (BMP)

These programmes are co-ordinated at group level, ensuring consistency in the application of skills development and equipping candidates with the skills necessary to take advantage of opportunities across the Group's different businesses.

Sanlam accepts the needs for the removal of economic legacies of structural inequality, and views EE as an opportunity to position itself strategically to achieve its business objectives.

Employment equity (EE)

Sanlam views EE as an integral element of its overall transformation strategy and understands the importance of compliance with the EE Act. Sanlam accepts the needs for the removal of economic legacies of structural inequality, and views EE as an opportunity to position itself strategically to achieve its business objectives.

Sanlam's statutory EE structures and reporting processes are fully functional and supportive of the Group's transformation strategy. All of Sanlam's businesses have established EE forums. These forums monitor progress on implementation and recommend any changes necessary to deliver on objectives.

The essence of Sanlam's EE policy

The Sanlam EE policy focuses on elimination of all forms of unfair discrimination, implementation of affirmative action measures, providing equal employment opportunities and entrenching an environment where diversity is appreciated and respected.

The Sanlam EE strategy aims to:

- Achieve equitable representation of all designated groups at all occupational levels and categories with a specific focus on meeting FSC targets for 2008;
- Guide respective business units in the development and implementation of specific programmes to assist with the internal transformation process;
- Establish and maintain an organisational environment that values and respects individual differences; and
- Support fully functional internal consultation structures to assist with the successful implementation of EE objectives.

As part of Sanlam's commitment to ensure full compliance with the EE Act requirements, which include the conducting of an organisational analysis and developing a subsequent EE plan, a summary of the most recent EE report submitted to the Department of Labour is set out below.

HEAD COUNT PER JOB LEVEL: 30 JUNE 2004

	Female	Male	Black	White
Elementary occupation and semi-skilled	80,6%	19,4%	48,9%	51,1%
Skilled technical, junior managers and supervisors	45,6%	54,4%	23,4%	76,6%
Professionally qualified middle management	41,4%	58,6%	17,3%	82,7%
Senior management	15,7%	84,3%	10,0%	90,0%
Top management	6,8%	93,2%	15,9%	84,1%
Total	54,5%	45,5%	30,5%	69,5%

RECRUITMENT PER JOB LEVEL: 1 JULY 2003 – 30 JUNE 2004

	Female	Male	Black	White
Elementary occupation and semi-skilled	63,4%	36,6%	82,7%	17,3%
Skilled technical, junior managers and supervisors	37,0%	63,0%	34,2%	65,8%
Professionally qualified middle management	41,9%	58,1%	24,8%	75,2%
Senior management	71,9%	28,1%	37,5%	62,5%
Top management	20,0%	80,0%	60,0%	40,0%
Total permanent	50,6%	49,4%	55,2%	44,8%

TERMINATIONS PER JOB LEVEL: 1 JULY 2003 – 30 JUNE 2004

	Female	Male	Black	White
Elementary occupation and semi-skilled	74,0%	26,0%	48,8%	51,2%
Skilled technical, junior managers and supervisors	37,0%	63,0%	50,6%	49,4%
Professionally qualified middle management	35,7%	64,3%	19,8%	80,2%
Senior management	19,2%	80,8%	20,2%	79,8%
Top management	14,3%	85,7%	14,3%	85,7%
Total	47,9%	52,1%	44,7%	55,3%

As at 31 December 2004, the overall black staff complement increased by 3% to 33%. For the same period the total black female complement has increased from 16,5% to 18%. The total black management complement increased by 1% from 20% in June to 21% at the end of December 2004.

Sanlam is committed to the implementation of the FSC targets with respect to senior, middle and junior management. The financial services industry is, however, still finalising issues of interpretation in this regard.

Suppliers

Sanlam's relevance in South African society extends well beyond the financial services sector. The Group as a whole has a direct impact on the fabric of the South African economy through its procurement spend alone. Via its subsidiaries, Sanlam influences around R1,7 billion of economic purchase activity annually.

Sanlam's Targeted Procurement Policy (TPP) is therefore a vital instrument of transformation – and one that impacts indirectly on the basic health and vibrancy of the South African economy.

Sanlam's revised TPP was drafted in 2004 and is currently being implemented.

Key objectives of the Sanlam TPP:

- Effecting transformation of the Group's supplier base
- Improved procurement governance (evaluation of suppliers, transparency)
- Fulfilment of the procurement provisions of the FSC
- Integrating delivery of procurement and enterprise development objectives
- Enhancing Sanlam's profitability, productivity and service levels (to internal and external customers)

The new policy will be implemented across all individual business units. Sanlam will adopt a decentralised approach to the execution of its TPP, in keeping with the Group's federal structure. Subsidiaries will play an active role in negotiating management frameworks and targets, while environmental criteria will also be built into the Group's overall procurement selection criteria.

Guided by the Group's TPP, Sanlam's subsidiaries aim to uplift and train black entrepreneurs with the potential and skills to become self-sufficient and competitive. By involving itself not only in procurement, but also in SMME business development, Sanlam believes that it will be able to position itself effectively in terms of its procurement needs.

Significantly, the Group's TPP is guided at all times by Sanlam's operational imperatives. It is Sanlam's intention going forward not only to meet its FSC targets for procurement, but to achieve economic benefits in the process.

Although the financial sector has not yet finalised certain technical details relating to the measurement of targeted procurement, management strongly believe that the Group is well-positioned in this regard.

Government and regulators

Sanlam is committed to open and constructive dialogue with government and regulatory authorities in the interests of making strong progress in our business, our sector and wider South African society.

Sanlam plays an active role in economic debate and policy formulation in South Africa through its participation in various structures such as Business Unity South Africa, the Black Management Forum and the Africa Institute. In line with Sanlam's intention to remain actively involved in transformation processes at all levels, Sanlam was active in the development of the FSC, and continues to be involved in its refinement through, *inter alia*, participation in the Life Office's Association, BEE steering committee and relevant task groups.

Sanlam also supports national capacity building through high-profile public sector secondments.

Sanlam is active in a wide range of external partnerships, which include amongst others:

- ABASA (Association of Black Accountants of South Africa)
- Actuarial Society of South Africa
- Afrikaanse Handelsinstituut (AHI)
- BUSA (Business Unity South Africa)
- Black Management Forum
- Business Trust
- Commercial Crime Bureau
- Financial Services Board
- Institute of Directors
- Insurance Institute of South Africa
- International Marketing Council
- Life Offices' Association
- Life Ombudsman
- Marketing Federation of South Africa
- NAFCOC
- National Business Initiative
- SA Business Coalition on HIV/Aids
- SACOB
- South Africa Foundation
- World Economic Forum
- Worldwide Fund for Nature SA

Public sector secondments

- Vic van Vuuren, Sanlam's chief executive for Group HR, was seconded to BUSA in 2004 as Chief Operating Officer for a two-year period.
- Ken Gardner from Sanlam's Public Affairs division was seconded to the South African Government as a communications officer in the Presidency in 2004, supporting capacity building in Government.

Community

Sanlam's investments in communities are geared to create a better life for all South Africans, with the overarching aims of alleviating poverty and playing a significant role in the successful transformation of South Africa's economy.

Sanlam's community engagement philosophy

Sanlam strives to develop a full understanding of the unique social, economic and environmental challenges faced by South Africa's varied communities. The development of this understanding informs Sanlam's community investments, which are designed to deliver long-term, sustainable value to communities.

Corporate Social Investment

Corporate Social Investment (CSI) is an important pillar in Sanlam's overall transformation strategy and plays a key role in enhancing the Group's reputation as a truly South African company.

Sanlam's CSI investments are focused in the areas of:

- Education
- HIV/Aids
- Economic development
- Social development

The Group's goal is not merely to meet the CSI requirement of the FSC (0,5% of operating profit), but to exceed it. Currently Sanlam's formula for calculating CSI budget is 1% of net operating profit.

Sanlam's strategic CSI goals

- Move beyond pure philanthropic donations
- Base investment strategies on extensive research and consultation with government and civil society
- Actively pursue investments which have strong potential for creating long-term value
- Create and unlock sustainable value in the lower third of the income pyramid.

Sanlam will launch a staff community involvement programme in 2005. The aim of this programme is to give Sanlam staff a vehicle through which to make a positive difference in the lives of less fortunate people.

The impact of this programme will be far-reaching in South African communities. From an internal perspective, the Group believes that the programme also has the potential to offer staff a more holistic work experience, allowing them to fully develop their relationships with other South Africans.

Highlights of Sanlam's community programmes

Economic development

Tshwane University of Technology Entrepreneurship Centre for New Venture Creation

Creating learning opportunities for prospective entrepreneurs to successfully start and operate ventures in the Limpopo Province.

Education

Centre of Science and Technology (COSAT)

Apart from funding a computer centre, 20 bursary holders, computer maintenance and bursary holders' transport allowance, Sanlam also contributes to the Fun'ulwazi Saturday School initiative – designed to extend mathematics, science and biology education to learners of surrounding schools.

Social development

COSATU Sanlam Senior Citizens Free Trains

Pensioners who have to collect their pension cheques at distant venues are able to board the trains at no cost to them, ensuring that they gain full value from their pensions.

HIV/Aids

Facilitation and partnerships

Apart from funding two HIV facilitators for COSATU-affiliated factories in the Western Cape in 2004, the Group also invested in Revive Network for an HIV/Aids clinic in the Eastern Cape and a partnership with The Paragon Generation which addresses life skills – with the focus on HIV – in schools.

MANAGING HIV/AIDS

Sanlam recognises the impact that the HIV/Aids pandemic has on both its internal and external stakeholders, and has implemented appropriate strategies in response.

Sanlam's HIV/Aids policy is implemented across the Group by the Group HR division. This allows Sanlam to take a centralised approach to the pandemic, and to manage HIV/Aids from a risk management perspective. Reinforcing Group HR's management of HIV/Aids is the Group's CSI division, which plays an active role in supporting internal and external HIV/Aids-related projects and programmes.

Sanlam first formalised a three-year HIV/Aids strategy in 2001, and is currently revising this strategy with the assistance of an established Sanlam HIV/Aids task team, consisting of actuaries, psychologists, a medical doctor, marketers, HR specialists and chartered accountants.

In acknowledgement of the business impact of the pandemic on the Group, specific focus areas are divided into:

- Product and market impact

- Community impact and CSI
- Impact on staff

Sanlam's HIV/Aids business imperatives include:

- Providing affordable life cover, given escalating Aids mortality
- Providing attractive products to HIV-positive individuals
- Restructuring risk and retirement benefits in an environment of high AIDS mortality
- Disseminating HIV/Aids information to protect current and future client base
- Projecting the financial and demographic impact of the pandemic
- Protecting against losses in existing business
- Education of staff in order to:
  - Prevent HIV infection
  - Minimise direct and indirect costs of HIV infection – such as absenteeism, loss of productivity, erosion of workforce and increased staff turnover
  - Decrease legal risk around testing protocols, confidentiality, disclosure and discrimination
  - Provide support for HIV-positive staff and thus decrease the number of Aids-related disability claims.

Sanlam recognises the impact that the HIV/Aids pandemic has on both its internal and external stakeholders, and has implemented appropriate strategies in response.

Full details of Sanlam's HIV/Aids policies and programmes are available on-line in the Group's 2004 Sustainability Report (www.sanlam.co.za). Please contact Trevor Chandler on 021 947 3484 if you do not have Internet access.

SANLAM'S ENVIRONMENTAL IMPACT

Environmental commitment

The Group strives to conduct its business with due regard for environmental concerns, and is committed to developing operating policies to address the environmental impact of its business activities, if any.

The SRI-Index categorises financial services companies in the 'low impact' category with regard to their direct impact on natural environments. However, Sanlam is cognisant of the fact that, albeit largely indirectly, the Group as a whole does have a considerable influence on the broader South African approach to the natural environment.

The Group's new Targeted Procurement Policy, which is scheduled for board approval early in 2005, includes set environmental criteria. Through the enforcement of these criteria, Sanlam aims to ensure that it plays a significant role in ensuring that all of its suppliers conduct their businesses according to sustainable and environmentally friendly models.

In addition to the above, the social, environmental and economic impact on/of a number of private equity investments, through the Sanlam Development Fund, are independently assessed by the Africa Centre for Investment Analysis (University of Stellenbosch Business School).

The Group directly contributes to environmental projects through its CSI programme. An example is the Group's partnership with the WWF and Government in the creation of the world' largest marine protected area around the Prince Edward islands.

Environmental overview

- Sanlam's environmental commitment is reflected in the charter of its Safety, Health and Environment (SHE) committee.
- In 2005, the SHE committee will create an environmental policy document for Sanlam (incorporating relevant clusters). The document will be available in the public domain (via the Sanlam web site).
- New initiatives or expansion of current operations will, if possible, be tested against the policy.
- SHE committee meetings are held at least twice a year.
- The SHE committee consists of four members, two of whom are non-executive directors.
- Responsibility for environmental sustainability will be allocated to an executive director. Responsibility for environmental policy review will be at this level, and time will be allocated at board meetings to discuss issues related to the policy that may have a material impact on the environment.
- The chairperson of the committee also attends the AGM to answer any shareholder questions concerning Sanlam's environmental commitment (developments and implementation).

Use of resources – overview

- Documented feedback is given monthly for all disciplines for which activities Sanlam's environmental management contractors, Drake and Skull are responsible.
- Drake and Skull is ISO 18001 accredited, in terms of which internal auditors perform audits of all safety processes and systems. Organisations with this accreditations satisfy stringent environmental management criteria.
- Monthly statistics are also produced to reflect performance vs. targets. A well-documented database is maintained regulating pro-active and reactive maintenance.
- An energy management programme is strictly followed at Sanlam. Sanlam's maximum demand (compared to the previous three years) has been reduced considerably.
- Sanlam's use of resources is being assessed towards achieving the optimal use of resources such as water and electricity.
- Sanlam has recently completed an electrical upgrade project which has further contributed to more effective use of electrical resources.

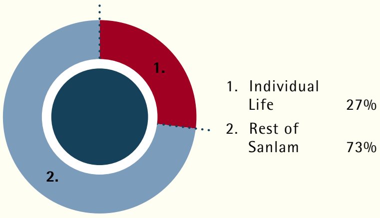
Life Insurance cluster:
Sanlam Individual Life

KEY RESULTS

R million	2004	2003	Δ%
New business	16 069	13 070	23
Net inflow of funds	2 959	527	>100
Result from operations before tax and minorities	1 580	1 285	23
New business embedded value (NUBev)	283	186	52
NUBev margin	17,7%	12,5%	

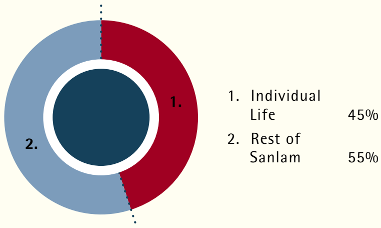
The key strategic focus for 2004 was to deliver on our savings target of R250 million and lay the foundation for improved distribution.

CONTRIBUTION TO NEW BUSINESS INFLOWS



R16 069 million

CONTRIBUTION TO RESULT FROM OPERATIONS BEFORE TAX



R1 580 million

PROFILE AND SHAREHOLDING STRUCTURE

Sanlam Individual Life	100%	Individual life insurance
Merchant Investors Assurance (MIA)	100%	UK based insurance company
Multi Data	100%	Money transfer
Sanlam Trust	100%	Estates and trusts
Consolidated Financial Services	55%	Financial services in Namibia
Sanlam Life Namibia	100%	Closed fund business in Namibia
Sanlam Home Loans	50%	Home loan joint venture with Absa
Cambium Capital	60%	Distribution joint venture with Citadel
Direct Axis	70%	Personal loans
Innofin	100%	Linked product provider

salient features

- Profit before tax increased by 23%
- Cost savings of R270 million
- New business volumes increased by 23%
- Net inflow of funds improved by R2 432 million
- New business embedded value increased by 52%

LIZÉ LAMBRECHTS
chief executive

SANLAM INDIVIDUAL LIFE

Executive committee

LIZÉ LAMBRECHTS	Chief executive
HENNIE DE VILLIERS	Operations
ANTON GILDENHUYS	Client solutions
KOBUS VLOK	Distribution
WILMOT MAGOPENI	Group solutions
HEINIE WERTH	Finance
ANDRÉ ZEEMAN	Actuarial
ROBERT GOFF	Human resources
ANTON RAATH	Innofin
LUKAS VAN DER WALT	MIA

VISION

Sanlam Individual Life shares the Group's vision to be the leader in wealth creation and protection. To achieve this we provide credible financial advice and innovative solutions, and build long-term relationships with clients. We foster a culture of commitment to our clients, valuing diversity and innovation. We strive to be an employer of choice to attract and retain the talented and motivated staff needed to execute our vision.

BUSINESS ENVIRONMENT AND OPERATIONAL REVIEW

In 2004, improved macro-economic conditions, driven by buoyant equity markets, lower interest rates and a strong rand, resulted in improved consumer sentiment, and impacted most of our business activities positively.

Notwithstanding the positive economic environment, the individual life industry has faced increasing challenges over the past few years. Aside from the potential growth within the emerging market, the life insurance industry in South Africa is relatively mature. This has led to lower growth than in previous decades and consolidation in the industry, particularly in respect of smaller life companies. It has also resulted in extremely competitive pricing of commoditised products, such as risk and guarantee products.

The low inflationary environment has resulted in lower investment yields, against which the charging structure of life insurers is relatively expensive. This has necessitated improved operating efficiency and greater management of client expectations regarding investment yields. These factors have led to often ill-informed negative perceptions of the life industry and have resulted in waning public confidence in life products as an investment and savings medium. Remaining relevant and flexible to our clients' changing needs is imperative to ensure our ongoing success.

Regulatory changes, such as FICA and FAIS, although very important in protecting clients' interests, have introduced significant administration and cost implications for financial institutions and intermediaries. The Financial Sector Charter, which provides considerable benefits and opportunities for the Group, also poses a number of challenges.

The key strategic focus for 2004 was to deliver on our savings target of at least R250 million and lay the foundation for improved distribution.

The cost saving target was exceeded and recurring savings of R270 million were achieved. This initiative was necessary to improve our competitiveness and has contributed to an improved financial performance, explained in more detail later in this review. While the cost-cutting initiative was a very difficult process for staff and the business as a whole, we maintained excellent levels of client service, achieving in excess of 90% satisfaction levels in our call centre.

The focus on improving our distribution capabilities led to several initiatives being launched during the year. These initiatives are aimed at providing a foundation for improved top-line growth, in particular new life recurring premiums. They include:

- Separate management structures in Distribution to optimise and support the segmented market focus for the entry-level, middle and affluent markets.
- Initiatives in the entry-level market, including doubling the capacity of the Group Solutions channel which commenced in the third quarter of 2004 and acquiring a majority stake in Safrican, which is supported by a distribution initiative with the Thebe group. Leveraging the benefits of the BEE transaction with Ubuntu-Botho will also enhance our potential in this segment.
- In terms of our middle market focus, following the restructuring of our advisor corps, which focused on improving productivity levels, we are currently in the process increasing the number and demographic profile of advisors to better reflect our target market segments.
- In support of our strategy to increase our presence in Gauteng, a separate channel is being established in this province to focus on the middle to affluent segment.
- Innofin, which previously operated in the Investment cluster, was moved to Sanlam Individual Life during 2004 to co-ordinate our focus on the retail market. Innofin's target market is the middle-to-high-income segment. A separate broker channel was created towards the end of 2004 to leverage Innofin's excellent relationship with brokers. The recently announced joint venture with Citadel, which will operate as Cambium Capital (Pty) Ltd, is a further initiative intended to service the affluent market.

Other initiatives have included aligning the incentives of our marketers to the desired sales mix, improving the utilisation of our direct marketing channel, improving our client focus and visibility with more client facing units, building on joint ventures driven by the Sanlam Independent Financial Services (IFS) cluster, as well as the continual improvement in the agility of our systems and processes. We also continued to build on our co-operation agreement with Absa brokers, which has resulted in a significant improvement in their contribution to our new business volumes.

Our strategy to find alternate forms of revenue to supplement the individual life business proved successful in 2004, with Direct Axis and MIA delivering significant growth in profits. The investment made in Sanlam Home Loans during 2004 is also expected to contribute to profitability in future years.

FINANCIAL REVIEW

Summary of results

Sanlam Individual Life delivered a sound performance with 23% growth in profits (13% on a comparable basis which excludes restructuring costs in 2003 and MIA in 2004); 23% growth in new business volumes; a R2 432 million improvement in the net inflow of funds and a 52% increase in new business embedded value. RSA Life new recurring premium income declined by 5%.

New business

The table below analyses the new business volumes achieved per product line in 2004.

Sanlam Individual Life delivered a sound performance with strong growth in profits, new business volumes and net flow of funds.

ANALYSIS OF NEW BUSINESS

R million	2004	2003	Δ%
RSA	13 070	11 901	10
• Life	7 831	7 416	6
Single	4 865	4 382	11
Continuations	1 559	1 556	–
Recurring	801	847	(5)
Index growth	606	631	(4)
• Non-Life	5 239	4 485	17
Foreign	2 999	1 169	>100
• Life[1]	892	156	>100
• Non-Life[2]	2 107	1 013	>100
Total new business	16 069	13 070	23

[1] *Includes R101 million relating to Innofin Illas sold in Namibia (2003: R76 million).*
[2] *Includes R829 million relating to Innofin investment inflows from Namibia (2003: R618 million).*

The 11% increase in RSA single premiums was largely driven by good growth in sales of guaranteed and endowment products. Competitive yields boosted guaranteed products and the improved stock market conditions, and SIM's improved investment performance, contributed towards better sales in endowment products.

RSA continuations arise where clients decide to continue their policy with Sanlam after it matures. Continuations remained at the same level as last year mainly due to the decline in maturity benefits during 2004. The retention rate of maturity benefits, by means of policy continuations, improved from 22% to 23% while our total retention rate of maturities, which includes the issue of other life policies or investment in other Group products, improved from 45% to 46%.

RSA non-life inflows consist of Innofin's discretionary products, which benefited from the strong equity markets and showed a 17% improvement on the previous year.

RSA new recurring premium sales were disappointing at 5% lower than the previous year. This decline can largely be ascribed to the reduction in the number of advisers due to the restructuring exercise. Importantly, however, the quality of business written has improved. Waning client confidence in recurring life products such as savings and investment vehicles, has also contributed to disappointing sales. The sale of traditional insurance products, such as pure whole-life products, increased by 16% but was unable to counter the negative impact of the aforementioned factors.

RSA index growth premiums, which relate to existing policies where clients increase their recurring premiums annually, to keep pace with inflation, declined by 4% mainly due to the lower inflation rates prevailing in 2004.

Foreign new business consists of our Namibia and UK operations. The bulk of the growth in foreign life business relates to our UK operation, conducted via MIA. MIA was acquired effectively on 1 January 2004 and its sales are included in these results for the first time. Despite MIA operating largely as a closed book with a marginal focus on new business, its new business volumes exceeded expectations for 2004. Namibia life single premiums grew by 157% and were boosted by the sale of a few large institutional single premiums.

Net flow of funds

The table below analyses the net flow of funds achieved per product line in 2004.

NET FLOW OF FUNDS

R million	2004	2003	Δ%
RSA net inflow	1 881	410	>100
RSA life	(44)	(2 009)	98
• Inflow	15 121	14 481	4
Recurring premiums	8 697	8 543	2
Single premiums	6 424	5 938	8
• Outflow	(15 165)	(16 490)	8
Death and disability	(1 497)	(1 545)	3
Maturities	(7 343)	(8 667)	15
Annuities	(3 135)	(3 197)	2
Surrenders	(3 190)	(3 081)	(4)
RSA Non-Life	1 925	2 419	(20)
• Inflow	5 239	4 485	17
• Outflow	(3 314)	(2 066)	(60)
Foreign net inflow	1 078	117	>100
• Life[1]	188	(221)	>100
• Non-Life[2]	890	338	>100
Net inflow of funds	2 959	527	>100

[1] *Includes R63 million relating to Innofin Illas sold in Namibia (2003: R49 million).*
[2] *Includes R395 million relating to Innofin net investment inflows from Namibia (2003: R250 million).*

The significant increase in the RSA net inflow of funds is largely attributable to the R1 965 million improvement in the RSA life flows in 2004, a welcome turnaround of the net outflows experienced in the recent past. A reduction in maturities and the containment of surrenders contributed significantly to the good results in 2004.

RSA non-life inflows, relating to Innofin's discretionary products, continued to maintain their high level of approximately R2 billion per year.

The bulk of the growth in the foreign life business net inflows relates to the UK operations, whose 2004 net inflows are included for the first time and also exceeded our expectations. The Namibian life operations showed a small net outflow of funds largely due to the impact of the closed fund running down. The significant increase in the foreign non-life net inflows relates to our Namibian unit trust business, which showed good growth, particularly in the shorter-term money market funds.

Result from operations before tax

The tables below analyse the result from operations achieved in 2004.

RESULT FROM OPERATIONS

R million	2004	**2003**	**∆%**
Financial services income	5 549	5 416	2
Sales remuneration	(981)	(1 064)	8
Income after sales remuneration	4 568	4 352	5
Underwriting policy benefits	(1 305)	(1 283)	(2)
Administration costs	(1 683)	(1 723)	2
Profit before restructuring costs	1 580	1 346	17
Restructuring costs	–	(61)	>100
Result from operations before tax and minorities	1 580	1 285	23
Admin cost ratio	36,8%	39,6%	
Operating margin excluding restructuring costs	34,6%	30,9%	

Financial services income increased by only 2%. This was due to the lower growth in the RSA life new business volumes combined with the declining number of in-force RSA life policies. The reduction in sales remuneration is due to the cost savings initiative (see next page) and the reduction in the RSA new recurring life premiums, which contributes towards the bulk of the commission expense.

ANALYSIS OF RESULT FROM OPERATIONS PER COMPONENT

R million	2004	2003	Δ%
Administration	288	21	>100
Risk	435	421	3
Market related	857	904	(5)
Profit before restructuring costs	1 580	1 346	17
Restructuring costs	–	(61)	>100
Result from operations before minorities and tax	1 580	1 285	23

The good growth in total profit is largely due to cost savings of R270 million. This contributed to the significant increase in administration profits and a 2% decline in administration costs, resulting in the administration cost ratio improving from 39,6% to 36,8%.

Although risk profits grew by only 3% compared to the 2003 financial year, they are in line with expectations that the higher margins of the past few years will be difficult to maintain going forward. This is due to competitive pressure on the pricing of risk products and less favourable underwriting experience.

Market related profits were 5% lower than 2003 mainly due to the impact of the lower short-term interest rates on our working capital profits. These profits arise from the short-term investment of our working capital funds before they are deployed in our operations. Short-term interest rates earned on these funds declined by 33% from an average yield of 12% in 2003 to 8% in 2004.

MIA's profits of R61 million, which are included for the first time in 2004, exceeded expectations and boosted the Sanlam Individual Life profits. Profits from the Namibian operations were lower than last year due to unfavourable underwriting conditions and the impact of a declining closed book.

Sanlam Home Loans, a joint venture with Absa, commenced activities during May 2004 and has performed in line with expectations. It is, however, still in a start up phase and a loss of R20 million before tax was incurred for 2004. Sanlam's 50% share of this loss has been included in Sanlam Individual Life's results.

The joint venture with Direct Axis, which was established in 2001 and grants personal loans, has performed exceptionally well and posted profits before tax of R31 million for 2004. This is due to positive consumer sentiment and lower short-term interest rates. Our 70% interest in these profits is included in the Sanlam Individual Life's results.

The table below highlights the improved contribution from both RSA life and other activities, which is in line with our strategy to supplement RSA life profits.

ANALYSIS OF RESULT FROM OPERATIONS PER BUSINESS

R million	2004	2003	Δ%
RSA Life	1 437	1 266	14
RSA Non-Life	51	44	16
Foreign	92	36	>100
Result from operations before restructuring	1 580	1 346	17

New business embedded value

Our primary focus for the next few years is to grow RSA new business sales, increase our RSA life market share and NUBev to competitive levels.

The table below analyses our new business embedded value for 2004.

NEW BUSINESS EMBEDDED VALUE (NUBEV)

R million	2004	2003	Δ%
RSA			
Annual premium equivalent	1 489	1 470	1
NUBev	272	183	49
NUBev margin	18,3%	12,4%	
Foreign			
Annual premium equivalent	113	19	>100
NUBev	11	3	>100
NUBev margin	9,7%	15,8%	
Total			
Annual premium equivalent	1 602	1 489	8
NUBev	283	186	52
NUBev margin	17,7%	12,5%	

The significant increase in the RSA new business embedded value (NUBev) and NUBev margin is largely attributable to the reduction in costs and, to a lesser extent, an improvement in the quality of business sold due to the rationalisation of less productive advisors. The lower discount rate compared to last year also contributed to the improved NUBev. The foreign NUBev is mainly attributable to our Namibian operations with a small contribution from MIA, due to its marginal focus on new business.

PROSPECTS

Our primary focus for the next few years is to grow RSA new business sales (particularly new recurring premiums), increase our RSA life market share and grow NUBev to competitive levels in the RSA life industry. Single digit growth in profits is, however, expected in the short-term, as the largest component of profits is derived from our mature RSA life business. We will continue to search for viable alternative sources of revenue, within and outside RSA, to supplement these profits.

The focus on our foreign activities is to consolidate our position in Namibia and to optimise our UK operation, MIA.

SANLAM LIFE

Board of directors

Non-executive directors	Board committees
JOHAN VAN ZYL (Chairman)	Human Resources
GEORGE RUDMAN (Lead director)	Audit, Actuarial and Risk Chairman, Human Resources
MANANA BAKANE-TUOANE	
FRAN DU PLESSIS	Audit, Actuarial and Risk
WILMOT JAMES	
VUSI KHANYILE	
CARMEN MAYNARD	Audit, Actuarial and Risk
FLIP RADEMEYER	Audit, Actuarial and Risk
CHRIS SWANEPOEL	Audit, Actuarial and Risk
BOETIE VAN ZYL	Human Resources Chairman

Executive directors

LIZÉ LAMBRECHTS
THEMBA GAMEDZE
HEINIE WERTH

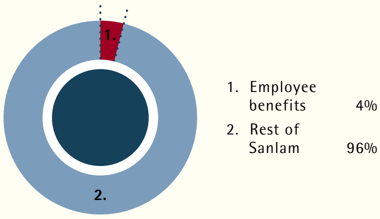
Life Insurance cluster:

Sanlam Employee Benefits

R million	2004	2003	Δ%
New business	2 394	2 291	4
Net outflow of funds	(1 773)	(603)	(194)
Result from operations	188	182	3
New business embedded value (NUBev)	41	46	(11)
NUBev margin	11,5%	13,4%	

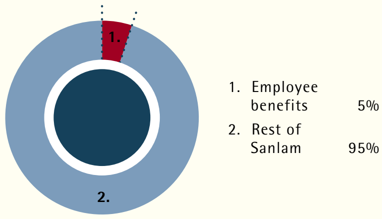
The focus for 2004 was to establish SEB as a stand-alone business in the Life Insurance cluster with solid foundations for sustainable profitable growth.

CONTRIBUTION TO NEW BUSINESS INFLOWS



R2 394 million

CONTRIBUTION TO RESULT FROM OPERATIONS BEFORE TAX



R188 million

KEY RESULTS

The results posted by Sanlam Employee Benefits (SEB), other than fund terminations being higher than anticipated, were in line with our expectations for the year.

The focus for 2004 was to establish SEB as a stand-alone business in the Life Insurance cluster and set up joint venture initiatives to provide a basis for future growth.

PROFILE AND SHAREHOLDING STRUCTURE

Sanlam Employee Benefits (SEB)	100%	Retirement fund business
Total Care Strategy (TCS)	60%	Umbrella fund administration (SME focus)
Sanlam Customised Insurance	100%	Cell captive insurer

salient features

- Improved risk underwriting profit
- Single premiums increased by 5%
- Much improved portfolio funding levels
- Strategic ventures create basis for future growth
- Net outflow of funds still a concern

THEMBA GAMEDZE
chief executive

SANLAM EMPLOYEE BENEFITS

Executive committee

THEMBA GAMEDZE	Chief executive
HEINIE WERTH	Finance
ANDRÉ ZEEMAN	Actuarial
SHAUN WOODMAN	Operations
TAMUKA KASEKE	Strategic ventures; Institutional business
DEON BOOYSEN	Client solutions
DOUW KRUGER	Key accounts

NATURE OF BUSINESS

SEB is a provider of the following products and services in the South African market:

- Life insurance products for group schemes and retirement funds;
- Investment and annuity products for retirement funds;
- Retirement fund administration for retirement and umbrella funds; and
- Actuarial and consulting services to the retirement fund industry (during the latter part of the year this division was transferred to the Independent Financial Services (IFS) cluster to allow it to focus on independent advice).

VISION AND STRATEGY

In line with the Sanlam group vision to be the leader in wealth creation and protection, SEB is focused on the following areas:

- Providing credible and objective advice on financial and administrative solutions for retirement funds;
- Providing competitively priced, innovative solutions within a financially sound managed environment; and
- Building long-term relationships with retirement fund brokers and retirement funds in various market segments (e.g. unions, parastatals, corporates and small/medium enterprises).

Over the short- to medium-term, SEB aims to achieve the following goals:

- Increase its presence in the Gauteng market;
- Improve the functionality of administration systems to deliver better service and improved productivity;
- Extract value from investments made in distribution and administrative capacity; and
- Capitalise on joint ventures established by IFS, particularly Break-thru Financial Services, and the Ubuntu-Botho transaction.

BUSINESS ENVIRONMENT AND OPERATIONAL REVIEW

The South African retirement fund industry has faced a number of challenges over the past few years. These challenges have influenced our strategy and include the following:

- Increased demand for individual member choice, resulting in demand for greater flexibility;
- Legislation that regulates the advice given by intermediaries;

- Legislation that requires fair distribution of historic and current surpluses to all members and former members;
- Volatile stock markets and the pressure on investment returns due to the lower inflation environment;
- The dramatic decrease in the value of the rand followed by a steady but strong recovery has had a major impact on investment returns;
- Increased competition for the life insurance industry from non-life product providers;
- The lower inflationary adjustment of salaries resulting in lower salary-based increases in recurring premium income;
- The increasing cost to comply with legislation has put pressure on retirement funds and is forcing smaller clients to consider alternative options;
- The reduced popularity of smoothed bonus offerings followed by outflows from these portfolios. It is not, however, clear whether this is a long-term trend; and
- The shift from defined benefit to defined contribution funds resulting in increased transactional pressure for administering investment records per individual member.

Employee benefits was identified as a focus area within the Sanlam group given the decline in SEB's market share of investment business over the last few years. The focus in 2004 was to establish a strong operational basis from which to grow. In line with the strategy to strengthen SEB's presence in the Gauteng market, the head office was moved to Johannesburg. Following the appointment of Themba Gamedze as CEO in September 2003, various changes were made to the business model.

- At the beginning of the 2004 financial year, SEB was a division of the Sanlam Life Insurance cluster. From 1 July 2004, SEB was established as a separate business unit reporting directly to the board of Sanlam Life Insurance Limited;
- Sanlam Consultants and Actuaries (SCA) was transferred to the Independent Financial Services (IFS) cluster with effect from 1 January 2005 to ensure greater advisory independence. SEB and IFS are working together to transform SCA into a viable stand-alone business and have put service level agreements and an appropriate remuneration model in place;
- A new company, Break-thru Financial Services (BFS), was formed as a joint venture between Sanlam and the Food and Allied Worker's Union's (FAWU) investment holding company, Basebenzi. BFS will initially provide retirement fund consulting to FAWU-influenced retirement funds;
- A focused institutional distribution channel was established to *inter alia* capitalise on the Ubuntu-Botho transaction; and

- SEB bought the remaining 40% shareholding in Total Care Strategy (TCS), effective 1 January 2005. TCS provides basic retirement fund administration at competitive rates to a growing number of smaller- and medium-sized enterprises with workforces of generally less than 100. This market segment provides good growth opportunities.

NEW PRODUCTS

The amendment to the Stable Bonus portfolio – to declare bonuses monthly in advance instead of using interim bonus rates – was well accepted by the market. A number of new products, including alternative investment solutions for clients seeking guarantees, are in the pipeline for early 2005 and market research indicates strong potential for these offerings.

SEB is well positioned to drive new business volumes aggressively, enhance operational efficiency and grow profitability over the long-term.

FINANCIAL REVIEW

Summary of results

During 2004 management focused on establishing a basis for sustainable future growth. SEB reported moderate growth in new business and operating profits increased marginally by 3%.

Improved underwriting practices followed over the last few years resulted in healthy growth in underwriting profits. This was offset by increased spending on the new administration systems and lower fee income on investment products, following the large outflow of funds and moderate new inflows.

New business

Total new premiums increased by 4% as illustrated in the table below:

ANALYSIS OF NEW BUSINESS

R million	2004	2003	Δ%
Recurring	129	127	2
Single	2 265	2 164	5
Total new business	2 394	2 291	4

The relatively low inflow of investment business can still be ascribed to historically poor long-term investment performance, as well as the market shift away from single manager and smoothed bonus products. However, the short-term performance of Sanlam Multi-Managers' non-vesting bonus fund was the best performer in its class. In addition, a marked improvement by SIM relative to benchmarks set for our portfolios was achieved.

Net flow of funds

The growth in fund inflows was overshadowed by the high contractual outflows and loss in business to non-life products. This resulted in a substantial net outflow of funds of R1 773 million (2003: R603 million). The table below analyses the net flow of funds.

NET FLOW OF FUNDS

R million	2004	2003	Δ%
Inflow	4 949	4 784	3
Recurring premiums	2 684	2 620	2
Single premiums	2 265	2 164	5
Outflow	(6 722)	(5 387)	(25)
Insured benefits	(1 265)	(1 219)	(4)
Uninsured contractual benefits	(3 739)	(3 021)	(24)
Fund terminations	(1 718)	(1 147)	(50)
Net outflow of funds	(1 773)	(603)	(194)

The current market trend is to move assets away from balanced portfolios and smoothed bonus products to more specialised portfolios with asset managers or multi-managers. This has led to high terminations from SEB, although the Group has generally benefited from this market trend. This is evidenced by the substantial net inflows directly into the Investment cluster.

Result from operations

Result from operations grew 3% compared to 2003.

RESULT FROM OPERATIONS

R million	2004	2003	∆%
Financial services income	1 768	1 703	4
Sales remuneration	(38)	(39)	3
Income after sales remuneration	1 730	1 664	4
Underwriting policy benefits	(1 263)	(1 219)	(4)
Administration expenses	(279)	(263)	(6)
Result from operations before tax	188	182	3
Administration cost ratio	16,1%	15,8%	
Operating margin	10,9%	10,9%	

The subdued 4% growth in financial services income, which consists mainly of risk underwriting premiums and fees earned, was largely due to a reduction in fees earned on funds under management given the net outflow of funds. However, the growth in underwriting premiums and administration fees exceeded inflation.

The increase in non-project expenses was limited to 0,5%. This was despite the addition of another distribution channel, aimed to increase SEB's access to new markets. The 6% increase in administration expenses resulted from an increase in project expenditure. The rationale for higher system expenses is to enable improved administration functionality, greater efficiencies and a more competitive product. The delivery of these benefits is monitored closely.

The contribution of the different products to overhead and project expenses is analysed in the table below:

CONTRIBUTION TO RESULT FROM OPERATIONS PER PRODUCT

R million	2004	2003	∆%
Administration	(4)	(16)	75
Underwriting	111	84	32
Investment	160	176	(9)
Contribution	267	244	9
Overhead expenses	(52)	(50)	(4)
Project expenses	(27)	(12)	(125)
Result from operations before tax	188	182	3

Compared to 2003, the loss from administration improved due to increased business volumes and tight cost management. New business sold during 2004 is expected to impact positively on revenue streams in the future.

The improved alignment of underwriting premiums to group schemes' risk resulted in increased underwriting profits. This is despite the loss of premium income due to strict pricing. The experience of claims is cyclical and it is likely that the current high margin levels will not be sustainable.

The lower contribution from investment products is due to the net outflow of funds, which has led to a reduction in the fee base. The change in the business mix, especially the move away has led to smoothed bonus products, also impacted the lower contribution from investment products.

New business embedded value

Total NUBev of R41 million is R5 million below that of 2003. The margin reduced from 13,4% to 11,5% due to the net effect of lower margin new business and the effect of lower interest earned on the reserves for underwriting business.

R million	2004	2003	∆%
Annual premium equivalent	356	343	4
NUBev	41	46	(11)
NUBev margin	11,5%	13,4%	

Funding position of participating portfolios

SEB's participating portfolios were adequately funded at 31 December 2004. During 2003, financial assistance of R190 million, in addition to the R153 million of 2002, was provided to the Participating Annuity Portfolio. Assistance of R100 million was also provided to the Monthly Bonus Fund in 2003. During 2004, the position of the Monthly Bonus Fund improved sufficiently to warrant no further support. The R100 million was therefore utilised to further increase support to the Participating Annuity Portfolio.

PROSPECTS

SEB is well positioned to drive new business volumes aggressively, to implement strategies to enhance operational efficiency, and to grow profitability over the long-term. The risks of market volatility and the cyclical nature of underwriting claims are being tightly managed and there is a strong focus on the development and appropriate staffing of the distribution channels. These actions will go a long way to ensure that SEB becomes a dominant player in the employee benefits market in South Africa.

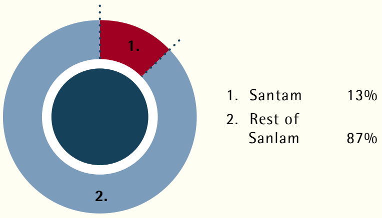
Short-term Insurance cluster

KEY RESULTS

R million	2004	2003	Δ%
Gross written premium	9 735	9 513	2
Underwriting result	1 166	530	120
Investment return on insurance funds	203	205	–
Result from operations before tax	1 369	735	86
Net income	1 734	806	115

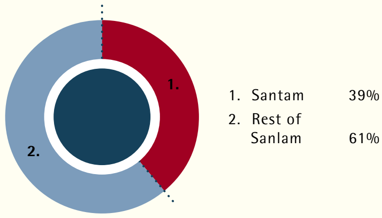
Santam delivered its strongest set of financial results ever with headline earnings more than doubling from 2003.

CONTRIBUTION TO NEW BUSINESS INFLOWS



R7 719 million

RESULT FROM OPERATIONS BEFORE TAX



R1 369 million

BUSINESS LINES: CONTRIBUTION TO GROSS WRITTEN PREMIUMS

Insurance classes	% contribution to gross written premium
Motor	42
Property	31
Liability	6
Crop	4
Miscellaneous	1
Engineering	4
Alternative risk	5
Transportation	3
Accident and health	3
Guarantee	1

All the classes were profitable for the 2004 year.

salient features

- Return on capital of 37%
- Net written premium increased by 12%
- Net insurance result of R1,4 billion
- Headline earnings per share increased by 107%
- R2,1 billion cash generated by operating activities
- Excess capital of R10 per share returned to shareholders

STEFFEN GILBERT
chief executive

SANTAM

Executive management

STEFFEN GILBERT	Chief executive
ELTIE LINKS	Corporate citizenship
CHRIS MOSTERT	Chief information officer
HENDRI NIGRINI	Risk services
PANKAJKUMAR RANCHOD	Insurance services
MACHIEL REYNEKE	Finance
JOE ROUX	Broker services
NICO SWART	Human resources
KOOS VAN TONDER	Santam international
MPUMI TYIKWE	Specialist portfolios
STEVE ZIETSMAN	Marketing and communication

NATURE OF BUSINESS AND STRATEGIC FOCUS

For 87 years Santam Limited (Santam) has been the leading short-term insurer in South Africa. The company has a market share of around 25% and focuses on corporate, commercial and personal insurance. Santam has assets totalling more than R12 billion, a countrywide infrastructure and broker network with more than 650 000 clients.

Santam has strategic investments in various companies in the insurance industry, including Santam Namibia Ltd, and business interests in Zimbabwe, Malawi, the United Kingdom and Ireland.

Sanlam Limited currently owns 52,5% of Santam through its policyholders' and shareholders' funds.

BUSINESS ENVIRONMENT AND OPERATIONAL REVIEW

It is expected that the favourable underwriting cycle of the past few years will be changing in the next year. Indications are that the strongest cycle in the industry to date may have reached its peak and is taking a downward turn. However, the market remains sound, the economy is strong and insurance rates are robust.

Santam will continue to follow a client-centric approach. This entails excellent service delivery and offering clients a wide range of flexible insurance solutions to meet their needs. Santam's range of flexible products includes the traditional Multiplex and the innovative MultiBonus and MultiMax. A new product for motor only and a unique policy for the vine industry will be introduced in the near future.

Santam also offers a unique claims and emergency service, MultiSOS, which gives clients and brokers the convenience of registering a claim telephonically – 24 hours a day, seven days a week.

FINANCIAL REVIEW

The past year proved to be one of the most favourable underwriting years in the history of the South African short-term insurance industry. Santam delivered its strongest set of financial results ever, with headline earnings increasing to R1,78 billion, more than double the amount for 2003.

Despite marginal growth in gross written premium, net written premium increased by 12% as a result of further optimisation of Santam's reinsurance programme. Growth in the corporate market came under pressure due to an increase in competitive offerings at significantly reduced rates. New entrants to the crop insurance market, together with lower levels of insurance due to climatic conditions and lower crop prices, hampered growth in this area. Although international premium income was on par with 2003 in GBP terms, the stronger rand depressed the levels reported.

The biggest factor contributing to the company's favourable underwriting results was the low claims ratio experienced in Southern Africa across most classes of insurance. The company's net claims ratio of 57% was 7,8 percentage points lower than in 2003. This was mainly due to benign weather patterns, the absence of catastrophes, a lower frequency of motor accident claims, a reduction in theft claims and fewer man-made disasters.

The company's strategy to retain more business at acceptable risk profiles is continuing. Reinsurance premiums, as a percentage of gross earned premiums, declined from 26,2% in 2003 to 19,4% in 2004. Optimising reinsurance spending remains a focus area for the future.

On the international front, Westminster Motor Insurance Association ended its second year successfully as part of the Santam group. Despite increased competition, Westminster maintained high levels of profitability and achieved a net underwriting margin of 12,5%. The prospects for Santam Europe, which commenced business in October 2004, are encouraging. Bluesure's entry into the UK insurance market took longer than anticipated, however, following Santam Europe's registration, business picked up towards the end of the year.

The strong underwriting cycle, the positive economic environment and a successful track record will underpin a sound performance for Santam going forward.

The combined effect of all insurance activities resulted in a net insurance margin of 17,7% against 10,9% for 2003.

Despite lower interest rates for 2004, the investment return on insurance funds was in line with returns achieved in 2003. This was primarily due to the 31% higher average float level (funds generated by insurance activities) as a result of continued focus on cash and working capital management.

The strong performance of the local equity market during the second half of the year, in particular the financial and industrial sectors, contributed towards the 105% increase in investment income. Equity earnings from associated companies were also significantly higher in 2004 due to good earnings from Credit Guarantee Insurance Corporation of Africa Ltd and Lion of Africa Ltd.

Headline earnings per share improved by 107% to 1 556 cents per share based on the favourable underwriting results and higher investment return.

Cash generated by operating activities exceeded R2,1 billion, up by 41% from 2003, as a result of increased profitability and improved working capital management. The company solvency level increased from 56% at the end of 2003 to 69% for the year under review.

As reported in the interim results, Santam embarked on an extensive exercise in 2004 to increase its capital efficiency to optimise returns to shareholders. For this purpose, Santam determined its optimal levels of capital, taking into account the combined underwriting and investment risk profile and business growth opportunities. As Santam's solvency margin at year-end is far in excess of its optimal risk adjusted capital requirements, the board approved the return of excess capital of R1,15 billion to shareholders, translating to a payment of R10 per share. The capital reduction is subject to shareholder and regulatory approval.

PROSPECTS

The year under review was an exceptional one for Santam. Although the company expects a more normal claims pattern and keener pricing in 2005, factors such as the strong underwriting cycle, the positive economic and financial outlook for South Africa and Santam's track record of successful risk management point towards a continuing sound performance.

Santam will focus on growing its market share in 2005 without compromising sustainable profitability. The company is in the process of redefining its long-term strategy to remain the dominant player in the South African short-term insurance market.

The international businesses will remain focused on ensuring that operations yield profitable results and the required return on capital.

Anticipated low interest rates in 2005 will continue to dampen returns on cash-related investments. It is expected that equity markets will remain firm, delivering good returns over the next year.

SANTAM

Board of directors

Non-executive directors	Board committees
DESMOND SMITH (Chairman)	Human Resources Chairman
JURIE GELDENHUYS	Audit and Risk
JANNIE LE ROUX	Human Resources
NAMANE MAGAU	
ALWYN MARTIN	Audit and Risk
JOHN NEWBURY	Human Resources
FLIP RADEMEYER	Audit and Risk
GEORGE RUDMAN	Audit and Risk Chairman
JOHAN VAN ZYL	Human Resources
PETER VUNDLA	

Executive directors

STEFFEN GILBERT
MACHIEL REYNEKE

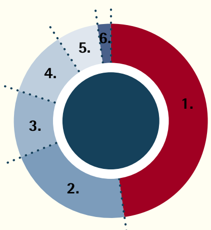
Investment cluster

KEY RESULTS

R million	2004	2003	∆%
Results from operations before tax	431	270	60
Gross inflow of funds	27 922	15 382	82
Net inflow of funds	6 362	1 222	421
Funds under management	285 900	227 300	26

Considerable progress has been made in achieving consistent superior investment performance over the medium and long-term.

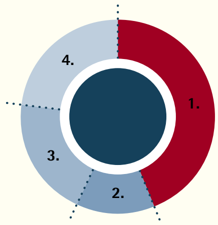
ASSETS UNDER MANAGEMENT



1. Wholesale – Sanlam 48%
2. Wholesale – Segregated 21%
3. International 11%
4. Sanlam Collective Investments 11%
5. Sanlam Private Investments 7%
6. Sanlam Multi-Managers 2%

R285,9 billion

RESULT FROM OPERATIONS AFTER TAX



1. Asset management 44%
2. Sanlam Collective Investments 13%
3. Sanlam Properties 20%
4. International 23%

R313 million

STRUCTURE

Sanlam Investment Management (SIM)	The second largest investment manager in South Africa measured by assets under management. It provides traditional and alternative investment products to institutional clients.
Sanlam Investment Management (Namibia) (SIM (Namibia))	One of the largest investment managers in Namibia. It provides traditional and alternative investment products to institutional clients. It is based in Windhoek.
Octane Management Ltd (Octane)	The designated alternative investment specialist within the Sanlam group. Its focus is to provide customised alternative investment solutions for clients. Octane's head office is in Switzerland, with its research team based in New York.
Sanlam Collective Investments (SCI)	The third largest manager of collective investment portfolios in South Africa, offering a wide range of retail, multi-managed institutional and white label collective investment funds.
Sanlam Multi-Managers (SMM)	Independent manager-of-managers operation.
Sanlam Multi-Managers International (SMMI)	A wholly-owned subsidiary, based in London and Dublin, responsible for SIM's international investment management.
Sanlam Properties (SProp)	Specialises in strategic property services like portfolio management, development, sales and listings.
Sanlam Private Equity (SPE)	Private equity fund-of-funds manager.
Sanlam Private Investments (SPI)	Manages assets for high net worth individuals and entities on a local and global basis, including stock broking.
Sanlam Asset Management Ireland (SAM (Ireland))	Manages funds domiciled in Ireland on behalf of investment management businesses in the Sanlam group. It is based in Dublin.

All 100% investments, apart from SIM (Namibia)

salient features

- Strong growth in gross and net fund inflows
- Top performing unit trust fund in South Africa for the second year running
- Launch of highly successful dividend income fund
- Launch of investment marketing capability
- Substantial progress in creating one global multi-manager platform
- Established Octane as preferred International Fund of Hedge Funds provider
- Strong focus on training and people development

JOHAN VAN DER MERWE
chief executive

SANLAM INVESTMENT MANAGEMENT

Executive management

JOHAN VAN DER MERWE	Chief executive
ROBERT ROUX	Chief operating officer
ARMIEN TYER	Executive director
RAYMOND SCHKOLNE	Human resources
STEVE MILLS	Portfolio management
GEORGE HOWARD	Chief investment officer
HAYDN FRANCKEISS	Fund management
QARNITA LOXTON	Legal and compliance
LOUISE HINDLEY	Client services

INVESTMENT CLUSTER

Heads of businesses

ROBBIE ALEXANDER	Octane
DEON GOUWS	SMMI
HENDRIK PFAFF	SMM
BLACKIE SWARTZ	SIM Namibia
TIENIE VAN DER MESCHT	Collective investments
BANUS VAN DER WALT	Sanlam Properties
DANIËL KRIEL	SPI

NATURE OF BUSINESS AND STRATEGIC FOCUS

The Investment cluster incorporates Sanlam's related investment businesses, ensuring that business practices and performance criteria are aligned to service Sanlam's predominantly South African client base. Areas of expertise cover traditional asset management, alternative investment products, property asset management, private client investment management and stock broking and multi-manager management for local and international clients.

Over the medium-term, we aim to achieve the following goals:

- Entrench an aspirational brand synonymous with a quality investment house catering for all stakeholders;
- Deliver sustained and competitive investment results;
- Achieve top quartile investment performance over three and five years; and
- Meet or exceed the Financial Sector Charter targets.

BUSINESS ENVIRONMENT AND OPERATIONAL REVIEW

In 2004 the unexpected strength of the rand led to lower than expected inflation, and an interest rate cut in August. It also fuelled a major consumer-spending boom reinforced by ballooning consumer borrowing. The inevitable strain on the country's current account was offset by significant capital inflows with foreign investors seemingly eager to benefit from relatively high South African yields. Supported by firmer international markets, both the South African equity and bond markets responded positively, especially following the August rate cut and gained 25,4% and 15,2% respectively over the year.

The Cluster's investment performance improved further and net fund flows were R6,4 billion compared to R1,2 billion in 2003.

Key achievements include:

- Sanlam Value Fund was the top performing unit trust in South Africa for 2004. The Sanlam Small Cap Fund, which achieved the same feat during 2003, has continued its good track record and has remained in the Top 10 (7th position);
- Sanlam Financial Fund achieved the best risk adjusted returns in its category over three years; and
- Gross inflows of R27,9 billion for the Investment cluster during 2004.

In its first full year of existence and as part of the ongoing effort to improve cost containment and optimise synergies, the Investment cluster succeeded on a number of fronts. Each business delivered on its strategic objectives and exceeded targets.

The substantial investments made in people, processes and systems have started to deliver the desired results.

We have made considerable progress towards our ultimate goal of consistent superior investment performance over the medium- and long-term. We are confident that our investment philosophy of being an active, pragmatic value-based investment house will enable us to achieve this goal to the benefit of all our clients.

During April 2004, an investment marketing capability was launched with the creation of sim.sense, an investment advice tool for Sanlam's retail distribution network. The tool is based on SIM's investment view and recommends specific customised investment portfolios that are constructed from appropriate Sanlam products aligned to a client's scientifically determined risk profile. This significantly improves the management of risk for the intermediary and the client, especially in the light of the new FAIS-legislation that was introduced during 2004.

The Cluster's independent outsourced investment administration company, Tasc Administration, was successfully sold to JPMorgan during July 2004 as part of the strategy of making investment management SIM's core focus. The deal also enables Tasc to provide Sanlam and its clients further benefits by being part of a global group where it can gain access to leading technology services.

SIM Namibia entered into a black economic empowerment deal in 2004, where 55% of the company became black owned. The deal is broad based and represents a large group of the Namibian working class. The deal will also significantly enhance SIM Namibia's ability to attract institutional funds from government and parastatal sources.

The search for synergies within the Investment cluster continued during 2004 and the two multi-manager companies, the London-based SMMI and the South African-based SMM, have made substantial progress integrating their respective platforms and processes into a Global Multi-Manager proposition. SMMI also assumed full responsibility during 2004 for the management of the investment funds of Merchant Investors Assurance (MIA), the life assurance company bought by Sanlam during 2003.

Octane continued to attract high calibre institutional investors in South Africa, continental Europe and the Middle East. Investment performance was particularly pleasing and outperformed all industry benchmarks over the short- and medium-term. Octane will continue to focus on increasing its client base and being a truly competitive boutique in the global arena.

Our focus on meeting the increasingly sophisticated requirements of South African consumers led to the launch of the innovative Sanlam Dividend Income Fund in July 2004. The Fund, which offers investors a low-risk investment vehicle, is similar to a money market fund and provides returns in the form of tax-free dividends. It has been an immediate success with inflows of more than R1,7 billion during its first six months.

There is a strong focus on creating an environment that engenders a culture of high performance and attracts the best talent in the industry whilst remaining committed to employment equity. The Investment Professional Development Programme (IPDP), which started in 2003, has produced outstanding results with the permanent appointment of the majority of candidates within SIM's investment team. The focus for 2004 has also been to obtain qualified black investment analysts. Three top candidates were recruited for the Equity Analyst programme, which commenced in July 2004, and progress to date has exceeded all expectations.

Continued focus on enhancing client service excellence and improving investment performance was largely responsible for a significant improvement in results.

A Fast Tracking programme for the Investment cluster, in which highly talented, young individuals are selected to participate, was also launched early in 2004. Seven of the eleven candidates are from previously disadvantaged groups. Relevant mentorship forms an integral part of the programme. In addition, an Action Learning Programme, which commenced in March 2004, addresses real business issues from the selected projects as well as achieving sustainable behaviour changes amongst participating members.

FINANCIAL REVIEW

Fund flows

The reported fund flows of the Investment cluster continued to improve. The cluster received funds totalling R27,9 billion during 2004, which is 82% higher than 2003. Total net fund flows increased from R1,2 billion to R6,4 billion in 2004. The continued focus on enhancing client service excellence and improving investment performance was largely responsible for the significant improvement in these results.

Result from operations

The Investment cluster, which now excludes Innofin (transferred to Sanlam Life) and Tasc (sold to JP Morgan), reported an increase in result from operations before tax of 60% to R431 million. This exceptional performance resulted from an improved performance in all major operating businesses.

In Southern Africa, SIM Wholesale reported a 44% increase in result from operations before tax driven mainly by higher revenue growth. The increased number of portfolios with incentive fee arrangements, together with improved investment performance, contributed to profit growth. The turnaround in fund flows described earlier, also impacted positively on performance with a large increase in fee income from new clients. Sanlam Private Investments capitalised on stronger equity markets and has reported exceptional growth in revenue and profits. The business continued to attract new fund flows and showed a 34% increase in recurring income from discretionary mandates. Growing fee income from this source remains one of the key strategic objectives of the business.

The other major businesses in the Cluster benefited from strategic changes initiated during the past two years. Sanlam Multi-Managers showed strong organic growth after developing its product offering across both retail and institutional distribution platforms over the past two years. Sanlam Private Equity now manages all private equity assets of the Sanlam group, which were consolidated into a single unit during 2004. The unit reported high growth in operating profits in 2004 and is preparing for potential investment opportunities resulting from the requirements of the Financial Sector Charter.

Sanlam Properties benefited from its involvement in the listing of the Vukile Property Fund, a large property portfolio, receiving a substantial once-off income. The listing improved the tradeability of the underlying property investments and increased the revenue of Sanlam Properties through higher property management fees, listing and sponsoring fees. The revenue growth resulting from these activities was mainly responsible for the 94% increase in operating profit before tax reported by Sanlam Properties.

The International businesses reported strong growth in profits, notwithstanding the strengthening rand. Sanlam Multi-Manager International's restructured operations and streamlined product offering resulted in cost savings and increased profits. SMMI was also successful in securing the mandate to manage MIA's assets, worth $1,9 billion. The mandate added to revenue growth and lowered expenses by leveraging off the larger asset base. Octane was successful in combining high organic growth in its asset base with very good investment performance and incentive fees. This led to Octane more than doubling its operating profits compared to 2003.

PROSPECTS

Our view is that investment markets in 2005 will continue to be challenging. The commodity cycle appears to be at a peak, and there are clear signs, notably in the oil market, that a downturn is imminent.

We believe that the rand will weaken over 2005, in line with a fall in commodity prices. While South African interest rates are likely to remain low in the near term, longer-term inflation concerns are likely to rise should the pace of consumer spending remain unchecked, and particularly if the rand weakens. We continue to be overweight in local and international equities, favouring non-resource, weak rand beneficiaries.

Our key strategic focus areas going forward are to deliver a sustained improvement in medium and long-term investment performance and to intensify the on-going process of transformation to grow each of the businesses in the cluster. We aim to achieve this through:

- Enhancing the training and development of all staff members and fostering a true learning culture;
- Increasing brand awareness amongst all stakeholders;
- Implementing a retail investment distribution model;
- Finalising the integration of the multi-manager platforms into a global proposition;
- Further developing our international investment proposition; and
- Seeking to meet or exceed the targets set out by the Financial Sector Charter through a structured process that includes required dates for delivery.

INVESTMENT CLUSTER INCOME STATEMENT

R million	2004	2003	∆%
Fee income	918	681	35
Brokerage	48	31	55
Net interest income	26	39	(33)
Financial services income	992	751	32
Administration cost	(561)	(482)	(16)
Result from operations before tax	431	269	60
Net equity-accounting	–	1	(100)
Tax and minorities	(118)	(81)	(46)
Result from operations after tax	313	189	66

RESULT FROM OPERATIONS – SUMMARY PER GEOGRAPHICAL SEGMENTATION

R million	2004	2003	Δ%
South Africa	242	170	42
International	71	19	274
Result from operations after tax	313	189	66

RESULT FROM OPERATIONS – SUMMARY PER BUSINESS

R million	2004	2003	Δ%
SIM	89	61	46
Sanlam Properties	64	30	113
Collective Investments	40	47	(15)
Other*	49	32	53
International	71	19	274
Result from operations after tax	313	189	66

**Other includes the following businesses: Private Investments, Private Equity, Multi-Managers, Namibia and TASC Administration*

INVESTMENT CLUSTER

Board of directors

Non-executive directors	Board committees
JOHAN VAN ZYL (Chairman)	Human Resources and Nominations
ATTIE DU PLESSIS	Audit and Risk Chairman
DAVID LADDS	CRAM Chairman, Audit and Risk, Human Resources and Nominations
FLIP RADEMEYER	Audit and Risk
FRAN DU PLESSIS	Audit and Risk
CARMEN MAYNARD	Human Resources and Nominations, Audit and Risk
REJOICE SIMELANE	

Executive directors

JOHAN VAN DER MERWE
ARMIEN TYER

Independent Financial Services cluster

RESULT FROM OPERATIONS

R million	2004	2003
Sanlam Financial Services UK[1]	47	(10)
Gensec Property Services[2]	10	19
Sanlam Consultants and Actuaries[3]	6	(4)
Equity-accounted earnings	(1)	–
Cluster overheads[4]	(6)	(10)
Total Cluster result from operations before tax	56	(5)
Included in Sanlam Life income statement	(6)	4
Total Cluster result from operations as per income statement	50	(1)

[1] *Excludes profit from io asset management and Octane for 2004 and the second half of 2003. It is reported in the Investment cluster.*

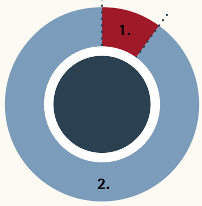
[2] *Consolidated for first six months of 2004 and equity-accounted for the last six months at 35%. For 2003, 100% of the profit before tax was consolidated.*

[3] *Included in Sanlam Life's income statement in 2004.*

[4] *Includes Sanlam International for 2003.*

IFS' key focus is to enhance Sanlam's profitability by making investments that provide an appropriate risk adjusted real return on capital and improve business flows to the Group.

CONTRIBUTION TO NEW BUSINESS INFLOWS



R5 950 million

PROFILE AND SHAREHOLDING STRUCTURE

The focus of IFS for the year under review has been to establish a portfolio of investments in all the key customer segments relevant to the Sanlam group. These include:

	Ownership	Nature of business
Sanlam Financial Services (SFS)	63%	UK-based financial services advisory group
Gensec Property Services (GPS)	35%	Property management services
Green Capital	33,3%	Life distribution in agricultural market
Bull and Bear	30%	Broker in high net worth market
Simeka	35%	EB and healthcare consulting
Break-thru Financial Services	40%	JV with union in EB market
Sanlam Consultants and Actuaries (SCA)	100%	Consultants and actuaries in EB market
Octogen	28%	Broker in corporate financial services
SA Quantum	25% option	Actuarial and consulting business in EB market

NICK CHRISTODOULOU
chief executive

INDEPENDENT FINANCIAL SERVICES

Executive management

NICK CHRISTODOULOU	Chief executive: IFS
LIEZL MYBURGH	Financial manager: IFS
SUMAYA PARKER	Senior Analyst

Heads of businesses

JONATHAN PUNTER	Sanlam Financial Services (UK)
MARNA VAN DER WALT	Gensec Property Services
PHILIP VAN DEN HEEVER	Octogen
MARTIN LEVICK	Green Capital
ALAN ALLSCHWANG	Bull and Bear
BARRY FRASER	Simeka
DOMINIC SIDES	Sanlam Consultants and Actuaries
CHRIS DLAMINI	Break-thru Financial Services
ABE NDURU	SA Quantum

NATURE OF BUSINESS

The Independent Financial Services (IFS) cluster was established towards the end of 2003 and reflects a full year of performance in the 2004 Sanlam group results. IFS invests in independent customer facing entities and intermediary businesses operating within the financial services industry. The Cluster's key operating principle is to enhance Sanlam's profitability by making investments that provide an appropriate risk-adjusted real return on capital, and improve business flows to the Group.

IFS invests in businesses that are generally non-Sanlam branded with strong customer loyalty, well-defined customer bases and have appropriate BEE credentials. They offer independent financial advice and the distribution and packaging of financial services in high growth segments. Through its investments, IFS provides Sanlam with access to a wider customer base and an opportunity to channel business to the Group.

IFS maintains an appropriate level of shareholding in its investments to influence strategic decisions without compromising on the independence of advice, customer choice and innovative product solutions. IFS has a small core management team and utilises existing Sanlam resources where needed.

FINANCIAL REVIEW

The Cluster delivered an operating profit of R56 million for 2004. This is mainly attributable to the performance of SFS, SCA (reflected in Sanlam Life's income statement for 2004) and GPS. Other investments are start-up entities with the results only reflecting the equity-accounted portion of the earnings of these investments. IFS also made a profit on the sale of GPS (not included in operating profit). From 2005, SCA will be included in the IFS results.

The Cluster overheads for 2004 reflect the IFS cluster and include legal and other costs relating to the acquisition of the investments during the year. The Cluster overheads for 2003 included Sanlam International.

The table below reflects the good progress IFS made to improve business flows to the Sanlam group:

BUSINESS FLOWS TO SANLAM GROUP

	R million
Recurring life premiums	13
Single life premiums	60
Short-term premiums	5
Value of trusts	275
Risk premiums (EB)	635
Investment premiums (EB)	967
Gross fund flows	5 950
Assets under management	8 436

REVIEW OF INVESTMENTS

Sanlam Financial Services

Profitability showed a marked improvement with profit before tax of £4 million compared to a loss of £0,8 million in 2003. Group turnover increased by 7% to £43,6 million compared to 2003.

Actuarial consulting

Actuarial Consulting pursued a number of initiatives during the year and should position the business well for future growth. These include:

- Implementing the Total Investment Governance Solution (TIGS) with sister company Psolve. TIGS delivers cost-effective advice and performance for trustees and is a natural extension of the existing advisory offer;
- Re-organising the sales and marketing process in line with the UK's changing pension legislation; and
- Embarking on a joint venture with an actuarial team in Glasgow to further strengthen its market position in Scotland and the North of England.

Independent financial advisory (IFA)

The regulatory environment has tightened substantially, with the UK regulator, the Financial Services Authority, introducing new authorisations on regulated activities not previously covered. This, combined with cost and commission pressure, has resulted in most major life offices closing regional sales service centres and moving towards IT-based initiatives as well as smaller IFA's being sold or amalgamated. PSFM's (SFS UK's IFA business) innovative approach and compliance will ensure that it is well positioned to take advantage of these changes and deliver a strong performance going forward.

Investment consulting and packaging

IFS delivered an operating profit of R56 million for 2004 and made good progress in improving business flows to the Group.

The combined assets under management of the investment businesses grew from £230 million to £780 million by the end of 2004. The primary driver of this growth was from the investment consulting business PSolve, primarily from the TIGS proposition and a number of structured product deals.

Hichens Investment Management (HIM) grew assets under management by 48% during the year and now manages assets totaling £200 million. HIM specialises in discretionary management, structuring and actively managing portfolios for private individuals, family trusts, charities and smaller pension funds. HIM also manages a UK Income and Growth unit trust.

The Alternative Investment Strategy funds (also known as the Hedge Fund of Funds) performed well. The assets under management within these funds increased by 49% to £137 million for the year.

Brokerage

Hichens Harrison (HH) turned around a loss of £2,8 million in 2003 to a break-even position this year. This was largely driven by better than expected corporate finance activity. HH has been named by the Investors Chronicle publication as the best performing new listing on the London Alternative Investment Market.

Outlook for 2005

Changes in the Pensions Bill and the UK Inland Revenue's pension are likely to generate a number of opportunities for SFS as the corporate market and the individual investor begin to understand the implications of the changes.

Competition continues to increase, particularly in some niche areas where SFS has an established presence, for instance PSolve's asset allocation services. There are, however, plans to extend the range of services into other profitable areas and to launch a number of new products including a London listed fund in the Alternative Investment Strategies range.

Gensec Property Services

Gensec Property Services (GPS) specialises in the management and administration of commercial properties. It has a national footprint and currently manages a commercial property portfolio of about R12 billion. The GPS service offering includes the management of clients' properties, tenanting of buildings, property broking and portfolio management.

In July 2004, Sanlam reduced its stake in GPS to 35% to enable its BEE partner, the Sam Montsi Consortium, to acquire 20% of GPS's shares. The balance of GPS's shares were sold to senior management (25%) and the Pam Golding Property Group (20%).

GPS has good prospects for 2005 based on an increasing demand for outsourced property services management. GPS's nationwide spread of properties and its position as an independent property services company with a diverse client base and comprehensive service offering, provide a strong platform to aggressively grow the business.

Octogen

Octogen is a specialised intermediary that provides financially stressed employees with debt management, financial planning advice and other relevant financial products. IFS acquired a 28% stake in Octogen effective December 2003. The implementation of worksite agents has proven to be difficult and capital intensive. However, initiatives are currently being pursued to generate positive cash flow, increased referrals and business flows to Santam.

Green Capital

Green Capital is a joint venture between Sanlam, Afgri and Genesis Capital, established in 2004. Afgri's major focus is to provide life and investment products to its agricultural loan customer base. Green Capital's distribution model is to acquire a minority interest in brokerages in areas where Afgri is dominant and provide these brokers with the relevant leads to grow their business. Genesis provides the day-to-day management of the entity and Sanlam provides the appropriate products and services. Green Capital has recently invested in its first broker in Marble Hall, Limpopo.

Bull and Bear

The Bull and Bear Financial Services Group is an independent financial intermediary that services the high net worth market in Sandton, Johannesburg. In May 2004, IFS acquired a 30% equity stake for R1,5 million. This investment will enable Sanlam to evaluate the efficiency of acquiring and consolidating brokers that use referrals from a professional services network as a model that will increase business flows to the Group. All indications are that the model is successful in generating profitable growth. The performance of the business will be more clearly reflected in the 2005 results.

Simeka

In October 2004, IFS acquired a 35% shareholding in Simeka, an actuarial, employee benefits and healthcare consulting business. The short to medium-term strategy is to grow the business structurally, funded by Sanlam where appropriate, which will benefit from improved business flows to the Group.

Sanlam Consultants and Actuaries (SCA)

SCA was split out of Sanlam during 2004 to create an independent black-owned consulting business focusing on the employee benefits market. IFS is in the process of commercialising the business and will commence with negotiating a joint venture with a black partner in the first half of 2005.

The profits for 2004 of R5,9 million show significant improvement against the loss of R3,8 million in 2003. These results for 2004 are still reflected in the Sanlam Life figures.

Break-thru Financial Services

Break-thru is a joint venture between Sanlam and Basebenzi, the investment arm of the Food and Allied Workers Union (FAWU). Break-thru will provide financial services including employee benefits, group solutions, multi-management, and other relevant financial services. Its business model will focus on developing relevant solutions to workers' needs and using appropriate distribution channels. From an empowerment perspective, this initiative represents the broadening of access to financial services and will enable people on the shop floor to manage their financial wellbeing. Sanlam is the strategic partner, contributing capital, human resources and infrastructure while FAWU's 100 000-strong membership base provides potential customers.

SA Quantum (SAQ)

IFS subscribed for R6 million preference shares in SAQ in December 2004, with an option to convert these shares to 25% equity within the next two years. SAQ is an actuarial and employee benefit consulting business and Sanlam will benefit from improved business flows, especially in the Employee Benefits market.

Overall strategic focus

IFS will continue to identify investments that have the potential to generate increased business flows to Sanlam and will also continue to focus on its existing investments to improve business flows to the Group.

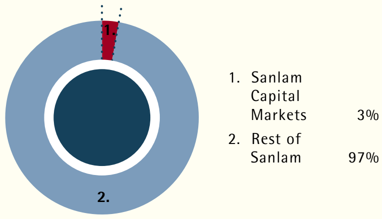
Sanlam Capital Markets

KEY RESULTS

R million	2004	2003
Revenue	225	234
Administration costs	(135)	(179)
Result from operations before tax	90	55
Attributable earnings	83	68
Return on equity	21%	17%
Result from operations before tax as a % of revenue	40%	24%
Expenses as a % of revenue	60%	76%

Good progress has been made in extracting synergies in the Group and leveraging off the Sanlam brand in securing third party business.

CONTRIBUTION TO RESULT FROM OPERATIONS BEFORE TAX



R90 million

STRUCTURE

SCM consists of the following operating divisions:

Market Activity	focuses on the core financial product groups, namely equity, fixed interest and cash.
Debt and Equity Structuring	provides structured investment products, debt origination and structuring, and equity structuring.
Sanlam Securities	provides discount and technology-based brokerage and market making services.

salient features

- Gensec Bank was successfully restructured into Sanlam Capital Markets (SCM), and returned its banking license.
- The staff complement has stabilised and performance in the first full year of operation achieved target, with a ROE of 21%.
- Great strides have been made in extracting synergies within the Sanlam group – this was one of the key objectives of the restructuring.

MARK MURNING
chief executive

SANLAM CAPITAL MARKETS

Executive committee

MARK MURNING	Chief executive
ANTHONY GOUVEIA	Finance
FRANCOIS OOSTHUIZEN	Risk
SABIR MUNSHI	Corporate services
DARON WALKER	Sanlam securities
GERHARD ERASMUS	Debt and equity structuring
THOMAS REILLY	Market activity

The operating divisions are supported by the following:

- Risk – focuses on the identification, quantification and control of the risks assumed in the SCM business, including market risk, credit risk, legal risk and operational risk;
- Finance – provides management and statutory financial reporting to the stakeholders of SCM and performs the financial control function; and
- Corporate Services – provides IT, HR, Marketing and Secretarial support to the SCM business.

NATURE OF BUSINESS AND STRATEGIC FOCUS

SCM provides risk management and structured product solutions and associated capital market activities to the South African savings industry, public sector enterprises and corporates. As such, SCM provides Sanlam with a substantial financial engineering capability.

SCM focused on two main objectives in 2004:

- Extract synergies from within the Sanlam group.
- Stabilise SCM by addressing uncertainty amongst staff, and creating a strong brand.

Good progress has been made in extracting synergies by providing risk management solutions within the Group and leveraging off the Sanlam brand in securing third party business. As described below, staff issues have largely been resolved, while the identity of SCM continues to be established within its relevant markets.

In addition to the progress made in meeting its strategic objectives, SCM achieved several successes in 2004, namely:

- Competitively priced funding was secured from within the Sanlam group and via a successful commercial paper programme;
- Significant mandates to provide risk management solutions, which were mutually beneficial for SCM and its clients, were secured from pension fund and corporate clients; and
- The full implementation and integration of SCM's world-class IT systems has been substantially completed.

For 2005, a key strategic objective is to continue to extract synergies across the Sanlam group and to extend its reach into its identified markets.

BUSINESS ENVIRONMENT AND OPERATIONAL REVIEW

The 2004 year was characterised by the continued strength and volatility of the rand. The South African equity market showed strong growth, however, the JSE's periods of low volume turnover impacted negatively on the revenues of Sanlam Securities, SCM's in-house broker. Liquidity in the interest rate market was thin at times, providing challenges in executing some risk management solutions for clients. In addition to these external factors, there was significant internal focus to establish SCM as a growing and profitable business. Despite these challenges, SCM delivered a very respectable ROE of 21% in its first full year of operation, marginally ahead of its budget. Strong business flows from both within and outside the Sanlam group contributed to this achievement.

The SCM staff complement has been stabilised and comprises a motivated, energised group of highly skilled individuals. The economic outlook for South Africa is positive and the SCM pipeline is encouraging. These factors indicate that SCM is well placed to deliver further value to the Sanlam group.

FINANCIAL REVIEW

Overall, revenue for the year was R225 million, with administration costs of R135 million, resulting in a profit before tax of R90 million. Attributable earnings amounted to R83 million, equating to a ROE of just below 21%.

The revenue was split between the following major operating divisions:

Debt and Equity Structuring – R107 million.

The performance of this unit was in line with expectations, with the success driven by good deal flow from Sanlam Life and debt structuring opportunities, as well as the carry on the debt book and the return on SCM's capital.

Market Activity – R94 million.

The unit delivered a strong performance in line with expectations. This was due to good deal flow in both the equity derivative and fixed interest units and as a result of the money market unit securing attractively priced funding.

Sanlam Securities – R24 million.

The performance of SCM's in-house broker was below expectations, mainly due to the lack of volumes in the equity markets.

PROSPECTS

Prospects for 2005 are encouraging with several client mandates being pursued.
In addition, the extraction of synergies in the Group will be an area of continued focus.
SCM expects to deliver returns of 25% in the medium to long-term.

SANLAM CAPITAL MARKETS

Board of directors

Non-executive directors	Board committees
FLIP RADEMEYER (Chairman)	Risk, Human Resources Chairman
ANTON BOTHA	Human Resources
PETER COOK	Audit Chairman, Credit, Risk
KOBUS MOLLER	Audit
DAVID LADDS	Audit, Credit Chairman, Risk Chairman, Human Resources
CHRIS SWANEPOEL	Risk
EUGENE VAN AS	
Executive directors	
MARK MURNING	Credit
ANTHONY GOUVEIA	Credit, Risk

sanlam limited group annual financial statements ...

Thinking ahead Sanlam

The board of Sanlam Limited accepts responsibility for the integrity, objectivity and reliability of the group and company financial statements of Sanlam 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, Ernst & Young and PricewaterhouseCoopers Inc, is to express an independent opinion on the fair presentation of the financial statements based on their audit of Sanlam Limited and its subsidiaries.

The audit committees have 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 operations and cash flows in accordance with relevant accounting policies, based on South African Statements of Generally Accepted Accounting Practice.

The board of Sanlam Limited accepts responsibility for the integrity, objectivity and reliability of the Report on the Sanlam Group Embedded Value. The responsibility for the preparation and presentation of the Report on the Sanlam Group Embedded Value has been delegated to management.

The responsibility of the appointed external auditors, Ernst & Young, is to express an independent opinion on the fair presentation of the Report on the Sanlam Group Embedded Value.

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

The financial statements on pages 156 to 228 and the Report on the Sanlam Group Embedded Value on pages 231 to 237 were approved by the board and signed on its behalf by:

ROY ANDERSEN
Chairman

JOHAN VAN ZYL
Group Chief Executive

2 March 2005

CERTIFICATE BY THE COMPANY SECRETARY

In my capacity as Company Secretary, I hereby certify, in terms of the Companies Act, that for the year ended 31 December 2004, the Company has lodged with the Registrar of Companies all such returns as are required of a public company in terms of this Act, and that all such returns are, to the best of my knowledge and belief, true, correct and up to date.

JOHAN BESTER
Company Secretary

2 March 2005

Financial Soundness Valuation

The Sanlam Life Insurance Limited group has been consolidated in the Sanlam Limited group financial statements set out on pages 156 to 228. My opinion hereunder is in respect of the financial soundness of the Sanlam Life Insurance Limited group, as set out in the Statement of Actuarial Values of Assets and Liabilities on pages 205 to 209.

I certify that:

- the valuation of Sanlam Life Insurance Limited group as at 31 December 2004, has been performed on the bases as set out on pages 164 to 167. The valuation has been prepared and the results are presented in accordance with the guidelines (Professional Guidance Notes 103, 104 and 110) of the Actuarial Society of South Africa;
- the Statement of Actuarial Values of Assets and Liabilities fairly presents the financial position of the Sanlam Life Insurance Limited group;
- Sanlam Life Insurance Limited group was financially sound as at the valuation date, and in my opinion is likely to remain financially sound for the foreseeable future; and
- the management actions assumed for the calculation of the capital adequacy requirements have been approved by the board of directors of Sanlam Life Insurance Limited and I expect that these actions would be taken if the corresponding risks were to materialise.

Embedded Value

In my view, the Sanlam Limited group embedded value and the value of the new life insurance business, as set out on pages 231 to 237 fairly present these values as defined. The embedded value and the value of new life insurance business have been calculated and presented in accordance with the applicable guidelines (Professional Guidance Note 107) of the Actuarial Society of South Africa.

CHRIS SWANEPOEL FIA, FASSA
Statutory Actuary
Sanlam Life Insurance Limited

2 March 2005

To the members of Sanlam Limited

We have audited the annual financial statements and the group annual financial statements of Sanlam Limited for the year ended 31 December 2004 as set out on pages 156 to 228. These annual financial statements are the responsibility of the directors of Sanlam Limited. It is our responsibility to express an opinion on these financial statements based on our audit.

Scope

We conducted our audit in accordance with statements of South African Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatements.

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.

Audit opinion

In our opinion, the annual financial statements and the group annual financial statements of Sanlam Limited fairly present in all material respects the financial position of the Company and the Group at 31 December 2004 and the results of their operations and cash flows for the year then ended, in accordance with South African Statements of Generally Accepted Accounting Practice, and in the manner required by the Companies Act in South Africa.

Ernst + Young

PricewaterhouseCoopers Inc.

ERNST & YOUNG

PRICEWATERHOUSECOOPERS INC.

Chartered Accountants (SA)

Registered accountants and auditors

Cape Town

2 March 2005

Nature of business

The Sanlam group is one of the largest established financial services groups in South Africa. Its core activities are set out elsewhere in the annual report.

Corporate governance

The board of Sanlam endorses the Code of Corporate Practice and Conduct recommended in the King II Report on Corporate Governance. Disclosures with regard to compliance with the Code are provided in the Corporate Governance Report.

Group results

Headline earnings increased from R2 351 million (89,2 cents per share) in 2003 to R3 185 million (116,6 cents per share) in 2004. Further details regarding the Group's results are included in the financial review and the business reviews.

The information in the financial review and Corporate Governance Report, requiring disclosure in the directors' report in terms of the Companies Act, has been audited.

The holding company's interest in the after tax profit of the Clusters is set out in the Segmental Income Statement on page 218.

Share capital

The changes in the authorised and issued share capital of the Company during the financial year relate to the empowerment transaction with Ubuntu-Botho. Details of these changes are provided in note 8 to the annual financial statements on page 178.

Dividend

The Board has declared a dividend of 50 cents per share (2003: 40 cents), payable on 18 May 2005, to shareholders registered on 22 April 2005.

Subsidiaries

Details of the Company's principal subsidiaries are set out on page 214.

Directors' interest in contracts

Apart from the agreements entered into with the Thebe Group and Ubuntu-Botho detailed in the Financial Review elsewhere in the annual report, no other material contracts involving directors' interests were entered into in the year under review.

Interest of directors in share capital

Details of the shareholding by directors at the date of this report are provided in the Corporate Governance Report elsewhere in the annual report.

Directors and secretary

Particulars of the directors and secretary of the Company at the date of this report, as well as changes in directorships, are set out elsewhere in the annual report.

Post-balance sheet events

No material facts or circumstances have arisen between the dates of the balance sheet and this report which affect the financial position of the Sanlam Limited group as reflected in these financial statements.

The attention of shareholders is drawn to the proposed acquisition of a majority stake in Absa, by Barclays Bank.

BASIS OF PRESENTATION

Policyholders' and shareholders' activities

The assets, liabilities and activities of the policyholders and shareholders in respect of the life insurance business are managed separately and are governed by the valuation bases for policy liabilities and profit entitlement rules, which are determined in accordance with prevailing legislation, Generally Accepted Accounting Practice, including accepted actuarial practice, and the stipulations contained in the demutualisation proposal. The valuation bases in respect of policy liabilities and profit entitlement of shareholders are set out on pages 164 to 167.

The group financial statements set out on pages 168 to 204 include the consolidated activities of the policyholders and shareholders. Separate financial information on the activities of the shareholders of the Sanlam Limited group is disclosed on pages 215 to 228. The Statement of Actuarial Values of Assets and Liabilities of the life insurance business of the Group is disclosed on pages 205 to 209.

Actuarial values of assets and liabilities

The actuarial values of assets and liabilities include the consolidated financial position of the Sanlam Life Insurance Limited group, excluding its subsidiary Sanlam Investment Management, which is included at fair value as determined by the board of directors. Associated companies are treated as investments and are not equity-accounted.

Funds received from clients

Funds received from clients include single and recurring long- and short-term insurance premium income, received on both insurance and investment policy contracts, which are included in the financial statements. It also includes contributions to collective investment schemes, inflow for assets managed and administered on behalf of clients and non-life insurance linked-product contributions, which are not otherwise included in the financial statements as they are funds held on behalf of and at the risk of clients. Transfers between the various types of businesses, other than those transacted at arm's length, are eliminated.

New business

In the case of long-term insurance business the value of all new policies that have been issued during the financial year and have received at least one premium is regarded as new business.

All segregated funds inflows, inflows to collective investment schemes and short-term insurance premiums are regarded as new business.

Financial services income

Financial services income for the shareholders' funds includes:

- Income earned from long-term insurance activities such as investment and administration fees, risk underwriting premiums, asset mismatch profits or losses in respect of non-participating business and income earned on working capital;
- Income from short-term insurance business, including income earned on working capital;
- Income from investment management activities such as fund management fees and collective investment and linked-product administration fees;
- Income from capital market activities such as realised and unrealised gains or losses on trading accounts, unsecured corporate bonds and money market assets and liabilities, other securities related income and fees, and commissions; and
- Income from other financial services such as trust services.

Segregated funds

Sanlam also manages and administers assets for the account of and at the risk of clients. As these are not the assets of the Sanlam group, they are not reflected in the Sanlam group balance sheet but are disclosed in a footnote to the balance sheet.

Term finance

The portion of term finance relating to preference shares, which is repayable within one year, is not transferred to working capital liabilities. As these liabilities are matched with investments, they are treated consistent with investments redeemable within one year that are not included in working capital assets.

Cash, deposits and similar securities

Cash, deposits and similar securities include bank account balances, call, term and negotiable deposits, promissory notes and money market collective investment schemes. A distinction is made between cash, deposits and similar securities included in the asset mix of policyholder and discretionary shareholder fund investment portfolios, which are disclosed as investments in the Group balance sheet, and working capital balances that are disclosed as working capital assets.

CHANGES IN REPORTING STRUCTURES AND ACCOUNTING POLICIES

The results of Innofin have been transferred from the Investment cluster to the Life Insurance cluster. Results from operations of prior periods have been restated accordingly and for December 2003, R22 million of profit is transferred from the Investment cluster to the Life Insurance cluster. The embedded value calculation now also includes the value of in-force life insurance business written by Innofin on Sanlam Life's licence. The non-insurance business is still valued on a fair value approach.

As the regulatory requirements for Sanlam's acquisition of Merchant Investors Assurance (MIA) were only satisfied late in December 2003 the results of the company were not consolidated into the Sanlam group for the 2003 annual report. The full investment was included at the cost of R383 million in equity investments. MIA is consolidated from 2004 and its net asset value as at acquisition date is included in the consolidated 2004 results with an accompanying adjustment to goodwill. In the embedded value calculation the goodwill is reversed and replaced by the value of MIA's in-force business.

Following the restructuring of the Group's international advisory and asset management businesses, Sanlam has, with effect from 1 July 2003, reduced its holding in the advisory and related businesses (Sanlam Financial Services UK) to 60%. Sanlam's Investment cluster regained a 100% holding in the asset and multi-manager components. The results of the investment manager are included with the Investment cluster for the 2004 year. For 2003 the results are included in the Independent Financial Services cluster for the first six months and in the Investment cluster for the second half of the year.

The presentation of deferred tax in respect of the policyholder funds has been amended in line with a directive issued by the Financial Services Board. In terms of the directive deferred tax assets and liabilities should be recognised and separately disclosed for all temporary differences of the policyholder funds. This deferred tax was previously included in and disclosed as part of long-term policy liabilities. Comparative figures have been restated to transfer the applicable deferred tax balances from long-term policy liabilities to a deferred tax liability.

The accounting policy for goodwill has been amended as required by IFRS 3 (AC140). Goodwill in respect of business combinations with an agreement date on or after 31 March 2004 are not amortised, but reflected at original cost less provisions for impairment. In terms of the transitional provisions of IFRS 3 (AC140) the accounting policy for business combinations with an agreement date before 31 March 2004 remains unchanged for the 2004 financial year.

The migration to new International Financial Reporting Standards (IFRS) for insurers will, in its full extent, last a number of years. IFRS 4, the standard for the first phase of IFRS on insurance contracts, was only recently issued with an effective date of 1 January 2005. Future results may be impacted, as the development of guidance for the long-term insurance industry, both from an accounting and actuarial perspective, is an ongoing process.

As was the case in the 2003 results, the Gensec result from operations is split between continuing (Sanlam Capital Markets) and discontinued operations. The results of all the operations are included in headline earnings and only the expenses directly attributable to termination of operations are excluded from headline earnings.

In the 2003 year-end results the Group introduced the concept of core earnings. Core earnings comprise the Group's result from operations, equity-accounted income and investment income, and as such it represents the headline earnings previously published for June 2003. To maintain comparability we will continue to report core earnings in 2004. Due to the distorted result caused by including the value adjustment of derivatives in headline earnings, whilst the value adjustment of the underlying hedged portfolio of shares is taken directly to equity, this amount has also been excluded from core earnings.

ACCOUNTING POLICIES

The Sanlam Limited group financial statements are prepared applying the principal accounting policies below, which are in accordance with and comply with South African Statements of Generally Accepted Accounting Practice, and some of which apply specifically to the life insurance industry. Apart from the change in the accounting policy relating to goodwill referred to above, the accounting policies applied in preparing the financial statements are consistent with those of the previous year.

Basis of consolidation

Subsidiaries are enterprises that are controlled by Sanlam Limited or by any of its subsidiaries. The Group has control over an enterprise where it has the power to govern the financial and operating policies of the enterprise.

The results of consolidated subsidiaries are included from the effective dates of acquisition to the effective dates of disposal. Inter-company profits and losses are eliminated from the Group results. Inter-company transactions at arm's length, which do not influence the Group's net earnings, are not eliminated from the results to fairly present the activities of the various businesses.

In certain instances, a portion of the Sanlam group's interest in consolidated subsidiaries is held by the policyholders' portfolios to fund future benefits in terms of its policyholders' contracts. The excess of the fair value of the policyholders' interest in these consolidated subsidiaries over their proportionate share of the subsidiaries' net assets is recognised in the Group balance sheet as equity investments.

Shares held in Sanlam Limited by subsidiary companies are eliminated against equity on consolidation where these shares are held by the shareholders' funds of the Sanlam Limited group. Where these shares are held as investments for policyholder benefits they are not eliminated on consolidation but reflected at fair value as equity investments in the balance sheet.

Associated companies

An associated company is a company, not being a subsidiary, in which the Sanlam group has a long-term investment and over which it has the ability to exercise significant influence on the financial and operating policies. The Group has significant influence where it has the ability to participate in the financial and operating policies of an enterprise without being able to control those policies by virtue of a majority vote.

Investments in associates for which significant influence is intended to be temporary, because the investments are acquired and held exclusively with a view to their subsequent disposal, are reflected as equity investments.

The results of associated companies are accounted for using the equity method of accounting, based on their most recent audited financial statements. If the most recent audited financial statements are for an accounting period that ended more than six months prior to the Group's year-end, then the most recently available management accounting results have been brought to account.

In respect of the investment in Absa, the equity-accounted headline earnings are included in investment income with a corresponding adjustment to the carrying value of the investment in associated companies. This carrying value is adjusted to fair value with a corresponding adjustment to investment surpluses consistent with the treatment of other investments designated as available-for-sale.

Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. The results of joint ventures have been accounted for using the equity method of accounting, where the Group's share of the joint ventures' earnings before dividends is included in earnings. The carrying amount of the investment in a joint venture is reviewed annually and written down for impairment where this is considered necessary.

Goodwill

Goodwill may arise on the acquisition or change in the holding ("adjustment") in a subsidiary company or the acquisition of a business. It represents the excess of the cost of an acquisition or adjustment over the fair value of the Group's share of the net assets of the subsidiary or business at the date of acquisition or adjustment. Where applicable, goodwill is translated to South African rand using historical exchange rates. Goodwill in respect of business combinations with an agreement date before 31 March 2004 is written off on a straight-line basis over the lesser of its estimated useful life or twenty years. Goodwill in respect of business combinations with an agreement date on or after 31 March 2004 is not amortised. The carrying amount of goodwill is allocated to cash generating units and reviewed bi-annually and written down for impairment where this is considered necessary.

Goodwill in respect of associated companies is included in the carrying amount of investments in associated companies.

Intangible assets

No value is attributed to internally developed trademarks or similar rights and assets. Costs incurred on these items, whether purchased or created by the Group, are charged to the income statement in the period in which they are incurred.

Financial instruments

Financial instruments carried on the balance sheet include cash and bank balances, term finance liabilities, investment policy contracts, investments (excluding investment properties), receivables and trade creditors. Financial instruments are recognised when the Group becomes party to a contractual arrangement that constitutes a financial asset or financial liability for the Group that is not subject to suspensive conditions. Financial instruments are recognised at the fair value of the consideration given or received in exchange for the instrument and by using trade date accounting. These instruments are generally carried at their fair value after initial recognition. The particular valuation methods adopted are disclosed in the individual policy statements associated with each item.

Owner-occupied property

Owner-occupied property is property held for use in the supply of services or for administration purposes. These properties are valued at carrying amount less depreciation and provisions for impairment in value, where appropriate. Depreciation is provided for by taking into account the residual value and estimated life of the property. If the expected residual value is equal to or greater than the carrying value, no depreciation is provided for. The carrying amount is based on the cost of properties classified as owner-occupied on date of acquisition and the fair value at date of reclassification in instances where properties are reclassified from investment properties to owner-occupied properties.

Investment properties

Investment properties comprise properties held to earn rental income and/or for capital appreciation.

Investment properties that generate income are carried at fair value based on valuations by professional valuators internally employed by the Sanlam group. Fair value is determined by discounting expected future cash flows at appropriate market interest rates. Valuations are carried out on a monthly basis. Other investment property is valued at cost less provision for impairment in value, where appropriate.

When investment properties become owner-occupied, the Sanlam group reclassifies it to owner-occupied properties and depreciates it on a straight-line basis at rates calculated to reduce the book value of these assets to estimated residual values over their expected useful lives.

Other investments

Fair values of other investments have been determined on the following bases:

- Listed shares and units in unit trusts are valued at the stock exchange and net asset value prices respectively. The value of unlisted shares is determined on a quarterly basis by the directors using appropriate valuation bases;
- Interest-bearing investments are valued by discounting expected future cash flows at appropriate market interest rates;
- Listed bonds are valued at the stock exchange prices;
- Listed derivative instruments are valued at the South African Futures Exchange prices and the value of unlisted derivatives is determined by the directors using generally accepted valuation models; and
- Loans of investment scrip to and from third parties are not treated as sales and purchases.

Financial instruments included in investments are classified as available-for-sale in terms of AC133 and are reflected at fair value, with the following exceptions:

- Certain classes of interest-bearing assets are held to maturity and consequently valued on an amortised cost basis.
- Derivative financial instruments are classified as held for trading and reflected at fair value.
- Certain classes of interest-bearing assets are loans and receivables originated by the Company and consequently valued on an amortised cost basis.

Other financial assets and liabilities

Term finance liabilities and trade and other payables are carried at settlement values. Trade and other receivables are carried at face value less provision for impairment.

Derivative instruments

Derivative financial instruments include foreign exchange contracts, interest rate futures, forward rate agreements, currency and interest rate swaps, currency, interest rate and equity options and other derivative financial instruments that are marked-to-market. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate. Accounting for these instruments is dependent upon the nature of the transactions.

Trading transactions undertaken by Sanlam Capital Markets include transactions undertaken for market making, to service customer needs and for proprietary purposes, as well as any related hedging transactions. These transactions are marked-to-market (fair valued) and any profits or losses arising are recognised in the income statement as operating profit or loss on dealing activities. The fair values related to such contracts and commitments are reported on a gross basis in the balance sheet as positive and negative replacement values.

Non-trading transactions are those which are held for hedging purposes as part of the Group's risk management strategy against assets, liabilities, positions or cash flows measured at fair value as well as structures incorporated in the product design of policyholder products. Derivative financial instruments used for hedging purposes by the shareholders' funds are marked-to-market and any gains or losses are recognised in the income statement as net investment surpluses.

Gains and losses on derivative financial instruments incorporated in policyholder products are included in policy liabilities.

Revaluation reserve

In respect of investments held by the shareholders' funds that are classified as available-for-sale, net realised investment surpluses are recognised in the income statement and the Group elected to transfer net unrealised investment surpluses directly to equity.

The total of net unrealised investment surpluses on the revaluation of investments attributable to shareholders' funds are transferred to a revaluation reserve. Realised and unrealised investment surpluses attributable to policyholders are included in policy liabilities.

The exchange differences arising on the translation of foreign entities are transferred to the non-distributable foreign currency revaluation reserve. On disposal of the net investment, the income is released to the income statement.

A negative revaluation reserve will not be created.

Trading account and money market assets and liabilities

Trading account and money market assets and liabilities are reflected at fair value, which is determined on the bases set out above for investments. As these assets are categorised as held for trading by Sanlam Capital Markets, the investment surpluses are taken to the income statement and form part of the result from operations of the Group.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, 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.

Property and equipment

Property and equipment are reflected at their depreciated cost prices. 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 two to twenty years.

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 on an accrual basis 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.

Investment return

Investment income

Interest income is accounted for on a time proportionate basis that takes into account the effective yield on the asset.

Rental income is accounted for on an accrual basis and is reflected net of property expenditure.

Dividend income is recognised once the last day for registration has passed. Capitalisation shares received in terms of a capitalisation issue from reserves, other than share premium or a reduction in share capital, are treated as dividend income. Dividend income from subsidiaries is recognised when the dividends are declared by the subsidiary.

Investment income earned on working capital is included in the result from operations.

Investment surpluses

Investment surpluses consist of net realised surpluses and deficits on the sale of investments and net unrealised surpluses and deficits on the valuation of investments at fair value. These surpluses are recognised in the income statement or taken directly to equity, based on classification of shareholder investments, or recognised in policy liabilities for policyholder investments on the date of sale or upon valuation to fair value.

Long-term rate of return

The long-term rate of return (LTRR) is determined at the beginning of the year by the directors and is primarily based on the actuarial assumptions, taking into account historical experience and current market conditions, having regard to inflation expectations and consensus economic and investment forecasts. The directors have selected this rate with a view to ensuring that investment returns credited to LTRR headline earnings are consistent with the actual returns expected to be earned over the long-term.

The long-term investment return is calculated on a monthly basis on the fair value of the investments held in the shareholders' funds.

Premium income

The full annual premiums on individual insurance and investment contract policies that are receivable in terms of the policy contracts are accounted for on policy anniversary dates, notwithstanding that premiums are payable in instalments. The monthly premiums in respect of certain new products are in terms of their policy contracts accounted for when due.

Group life insurance and investment contract premiums are accounted for when receivable. Where premiums are not determined in advance they are accounted for upon receipt.

Short-term insurance premiums are accounted for when receivable, after provision for unearned premiums relating to risk periods that extend to the following year. Premiums outstanding for more than sixty days are not accounted for. Inward short-term reinsurance agreement premiums are accounted for on an intimated basis.

Gross premium income is reduced by reinsurance premiums applicable to the same period.

Consulting fees earned

Consulting fees are accounted for on the accrual basis.

Policy benefits

Life insurance policy claims received up to the last day of each financial period and claims incurred but not reported (IBNR) are provided for and included in policy benefits. Past claims experience is used as the basis for determining the extent of the IBNR claims.

Underwriting policy benefits in respect of long-term insurance business include the change in the corresponding actuarial liabilities.

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

Policy benefits are reflected net of amounts recovered from reinsurers.

Sales remuneration

Sales remuneration consists of commission payable to sales staff on long-term and short-term investment and insurance business and expenses directly related thereto, bonuses payable to sales staff and the Group's contribution to their retirement and medical aid funds.

Commission on life business is accounted for on all in-force policies in the financial period during which it is incurred.

Acquisition cost for short-term insurance business is deferred over the period in which the related premiums are earned.

Administration costs

Administration costs include, *inter alia,* indirect taxes such as revenue stamps payable on insurance policy contracts and VAT, property and administration expenses relating to owner-occupied property, property and investment expenses related to the management of the policyholders' investments, product development and training costs. Internal systems development costs and purchased systems costs are included in administration expenses when incurred.

Deferred income tax

Deferred income tax is provided at current tax rates for all temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes. Deferred tax assets relating to 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.

Deferred tax balances are reflected at current values and have not been discounted.

Foreign currencies

Transactions and balances

Assets and liabilities in foreign currencies are converted to South African rand at exchange rates ruling at the financial period end. Foreign currency income statement items are translated at the weighted average exchange rates for the period.

Foreign entities

All foreign subsidiaries are regarded as foreign entities due to the nature of their relationship with the holding company. Income statement items of foreign subsidiaries are converted to South African rand at the weighted average exchange rates for the financial year. The closing rate is used for the assets and liabilities. At acquisition, equity is translated at the rate ruling on the date of acquisition. Post-acquisition equity is translated at the rates prevailing when the change in equity occurred. Exchange differences arising on translation of foreign entities' results are transferred to a non-distributable reserve until the disposal of the net investment when it is released to the income statement.

Retirement benefits

Retirement benefits for employees are provided by a number of defined benefit and defined contribution pension and provident funds. The assets of these funds, including those relating to any actuarial surpluses, are held separately from those of the Group. The retirement plans are funded by payments from employees and the relevant group companies, taking into account the recommendations of the retirement fund valuator.

The Group's contributions to the defined contribution and defined benefit funds are charged to the income statement in the year in which they are incurred. A valuation in accordance with AC116 is performed on an annual basis. For the purpose of calculating pensions, medical contributions are deemed to be a part of pensionable salary. Retirement fund contributions are made on the pensionable salary. Therefore, pensioners fund post-retirement medical contributions themselves from their increased pensions. The Group has provided in full for its medical contribution commitments in respect of pensioners and disabled members who are not covered under the current scheme.

Defined benefit plans

The schemes are valued using the valuation basis for past service cost. Any deficits advised by the actuaries are funded either immediately or through increased contributions to ensure the ongoing soundness of the schemes. Contributions are expended during the year in which they are funded. The net surplus or deficit in the benefit obligation is the difference between the present value of the funded obligation and the fair value of plan assets. The Group recognises the estimated liability using the projected unit credit method. The present value of the overfunded portion of these schemes is recognised as an asset to the extent that there are material benefits available in the form of refunds and reductions in contributions.

Defined contribution plans

Group contributions to the pension and provident funds are based on a percentage of the payroll and are charged against income as incurred.

Medical aid benefits

Group contributions to medical aid funds are charged to the income statement in the year in which they are incurred.

Post-retirement medical aid benefits

The present value of this post-retirement medical aid obligation is actuarially determined annually and any deficit or surplus is immediately recognised in the income statement. The Group recognises the estimated liability using the projected unit credit method. The Group has no significant exposure to any other post-retirement benefit obligation.

Equity compensation plans

Sanlam operates a staff share incentive scheme through Sanlam Limited Share Incentive Trust. Shares are offered on a combined option and deferred delivery basis, which staff can take up in tranches over a period of up to six years.

The beneficiaries under the scheme are executive directors, management and sales advisors employed on a full time basis. There is currently no income statement effect when such benefits are granted. The Sanlam Limited Share Incentive Trust is consolidated in the group financial statements.

Black Economic Empowerment transaction

Sanlam's black economic empowerment transaction with Ubuntu-Botho included the following components:

- shares issued in Sanlam Limited at fair value;
- the donation of treasury shares to Ubuntu-Botho to bring about the Sanlam Ubuntu-Botho Community Development Trust; and
- the issue of convertible deferred shares at nominal value.

The nominal value of the shares issued at fair value is recognised as an increase in the nominal value of share capital. The difference between the issue price and nominal value is recognised as an increase in share premium.

The donation of treasury shares is accounted for as a disposal of treasury shares for no consideration.

The nominal value of convertible deferred shares issued is recognised as an increase in the nominal value of share capital. Deferred shares with a conversion entitlement are treated as potential ordinary shares for the calculation of diluted earnings per share, net asset value per share and embedded value per share.

Segmental reporting

For management purposes, the Group is organised into a number of business clusters based on the operating activities of these businesses.

The segments are based on the type of business, namely life insurance, investment management, short-term insurance and independent financial services. Corporate activities are included in separate segments.

The decentralised nature of the clusters facilitates the allocation of costs between them, as the costs are directly attributable to the different clusters. Inter-segment transfers are based on arm's length prices.

Dividends

Dividends proposed or declared after the balance sheet date are not recognised at the balance sheet date.

POLICY LIABILITIES AND PROFIT ENTITLEMENT

Introduction

The valuation bases and methodology used to calculate the policy liabilities of all material lines of long-term insurance business and the corresponding shareholder profit entitlement for Sanlam Life Insurance Limited are set out below. The same valuation methodology is applied for the Namibian insurance subsidiaries. Policy liabilities for Merchant Investors Assurance Company Limited (MIA) have been determined in accordance with United Kingdom statutory and actuarial requirements. Details of MIA's valuation methods and bases are not provided in view of its relatively small contribution to earnings and because 97% of policy liabilities is in respect of unit-linked portfolio investments (where liabilities are equal to assets).

The actuarial value of the policy liabilities is determined using the financial soundness valuation method as described in the actuarial guidance note PGN 104 of the Actuarial Society of South Africa (ASSA), which is consistent with the valuation method prescribed in the Long-term Insurance Act, 1998 (LTIA) and consistent with the valuation of assets at fair value. The underlying philosophy is to recognise profits prudently over the term of each contract consistent with the work done and risk borne.

In the valuation of liabilities, provision is made for:

- the best estimate of future experience;
- the margins prescribed in the LTIA and the guidelines of the ASSA; and
- second-tier margins determined to release profits to shareholders consistent with policy design and company policy.

The policy liabilities exceeded the minimum requirements in terms of the LTIA and actuarial guidance notes PGN 104 and PGN 110.

A distinction is made between investment contracts (which fall within the scope of AC133) and insurance contracts. A contract is classified as insurance where Sanlam accepts significant insurance risk by agreeing with the policyholder to pay benefits if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary.

Liabilities in respect of investment contracts are valued at fair value to be consistent with the valuation of assets. The financial soundness method is considered to be an appropriate fair value valuation method for this purpose, given that there is no deep, liquid market for the trading of insurance policies.

Assets are valued at fair value as set out in the accounting policy for investments. It was not considered necessary to exclude intangible assets from the value of the assets.

The asset valuation method prescribed in the LTIA for the purpose of returns to the Registrar of Long-term Insurance, will normally produce a lower value because of adjustments for investments in Group undertakings and inadmissible assets (as defined in the Act). The effect of valuing the assets on this basis is disclosed in the "Statement of Actuarial Values of Assets and Liabilities of the Sanlam Life Insurance Limited Group" on pages 205 to 209.

Application of valuation methodology

A number of changes were made to the valuation methodology and assumptions. Further information on the changes is provided in the "Statement of Actuarial Values of Assets and Liabilities for the Sanlam Life Insurance Limited Group" on pages 205 to 209.

Best estimate of future experience

The best estimate of future experience is determined as follows:

- Future investment return assumptions are derived from market-related interest rates on fixed-interest securities with adjustments for the other asset classes. The asset composition of the various asset funds, investment management expenses, taxes at current tax rates and charges for investment guarantees are taken into account.
- Unit expenses are based on the 2004 experience of Sanlam Life Insurance Limited on a going-concern basis and escalated at estimated expense inflation rates per annum.
- Assumptions with regard to future mortality, disability and disability payment termination rates and surrender and lapse rates are consistent with the experience for the five years up to 30 June 2004. Mortality and disability rates are adjusted to allow for expected deterioration in mortality rates as a result of Aids and for expected improvements in mortality rates in the case of annuity business.

Asset funds

Separate asset funds are maintained for each of the major lines of business. Bonus rates are declared for each class of participating business in relation to the funding level of each portfolio and the expected future net investment return on the assets of the particular investment portfolio.

Bonus stabilisation reserves

The group and individual stabilised bonus portfolios are valued on a retrospective basis. If the fair value of the assets in such a portfolio is greater than the net premiums invested plus declared bonuses, a positive bonus stabilisation reserve is created which will be used to enhance future bonuses. Conversely, if assets are less than the net premiums invested plus declared bonuses, a negative bonus stabilisation reserve is created.
A negative bonus stabilisation reserve will be limited to the amount that the Statutory Actuary expects will be recovered through the declaration of lower bonuses during the ensuing three years, if investment returns are in line with long-term assumptions.

Provision for future bonuses

Provision was made for future bonuses so that each asset fund, less charges for expenses (including investment guarantee charges), for each line of business would be fully utilised for the benefit of the policyholders of that fund. As all the portfolios, other than participating annuities, had positive bonus stabilisation reserves, the provision for future bonuses for these portfolios exceeded the expected long-term investment returns less expense recoveries.

In the case of participating annuities, bonus rates 1% lower than the last declared rate were assumed for the next three declarations, with bonus rates thereafter increasing to the assumed future investment returns less provision for expense recoveries.

Reversionary bonus business

The liability is set equal to the fair value of the underlying assets. This is equivalent to a best estimate prospective liability calculation using the bonus rates as set out above, and allowing for the shareholders' share of one-ninth of the cost of these bonuses.

The present value of the shareholders' entitlement is sufficient to cover the margins prescribed in the LTIA and the ASSA guidelines for the valuation of policy liabilities. The prescribed margins are thus not provided for in addition to the shareholders' entitlement.

Individual stable bonus and market-related business

For investment policies where the bonuses are stabilised or directly related to the return on the underlying investment portfolios, the liabilities are equated to the retrospectively accumulated fair value of the underlying assets less any unrecouped expenses. These retrospective liabilities are higher than the prospective liabilities calculated as the present value of expected future benefits and expenses less future premiums at the relevant discount rates.

To the extent that the retrospective liabilities exceed the prospective liabilities, the valuation contains second-tier margins. The valuation methodology results in the release of these margins to shareholders on a fee minus expenses basis consistent with the work done and risks borne over the lifetime of the policies.

Group stable bonus and linked business

In the case of group linked business and group policies where bonuses are stabilised, the liabilities are equated to the fair value of the retrospectively accumulated underlying assets.

Future fees exceed expenses, including allowance for the prescribed margins. These excesses represent second-tier margins and are released to shareholders consistent with the work done and risks borne over the lifetime of the policies.

Participating annuities

The liabilities are equated to the fair value of the retrospectively accumulated underlying assets. This is equivalent to a best estimate prospective liability calculation allowing for future bonus rates as described above and expected future investment returns. Shareholder entitlements emerge in line with fees charged less expenses incurred consistent with work done and risks borne over the lifetime of the annuities. The present value of the shareholders' entitlement is sufficient to cover the prescribed margins for the valuation of policy liabilities. The prescribed margins are thus not provided for in addition to the shareholders' entitlement.

Non-participating annuity business

Non-participating life and term annuity instalments and future expenses in respect of these instalments are discounted at market interest rates of appropriate backing assets, reduced by the best estimate allowance for credit risk and the prescribed margin, as well as investment management expenses. All profits or losses accrue to the shareholders when incurred.

Guaranteed plans

Guaranteed maturity values and expected future expenses are discounted at market-related interest rates. All profits or losses accrue to the shareholders when incurred.

Other non-participating business

Other non-participating business forms less than 6% of the total liabilities. Most of the other non-participating business liabilities are valued on a retrospective basis. The remainder is valued prospectively and contains second-tier margins via an explicit interest rate deduction of approximately 3% on average.

For non-participating business other than life and term annuity business and guaranteed plans, an asset mismatch provision is maintained. The interest and asset profits arising from the non-participating portfolio are added to this provision. The asset mismatch provision accrues to shareholders at the rate of 1,33% monthly, based on the balance of the provision at the end of the previous quarter. The effect of holding this provision is to dampen the impact on earnings of short-term fluctuations in fair values of assets underlying these liabilities. The asset mismatch provision represents a second-tier margin. A negative asset mismatch provision will not be created, but such shortfall will accrue to shareholders in the year in which it occurs.

HIV/Aids

A specific provision for HIV/Aids-related claims is maintained and included with the "other non-participating business" referred to above. A prospective calculation according to the relevant guidelines is performed for non-participating individual policies and for those with a small savings element. The provision for other individual policies (78% of the total HIV/Aids provision for individual policies) is built up by increasing the opening provision by the HIV/Aids risk premiums and investment returns on the underlying assets. It is then reduced by claims attributed to HIV/Aids and further limited to a maximum of the prospective calculation without allowance for future increases in HIV/Aids risk premiums. This retrospectively built-up provision is higher than a prospective calculation done according to the relevant guidelines allowing for possible increases in future HIV/Aids risk premiums. This difference can be regarded as a second-tier margin. It is the intention to re-rate premiums as experience develops.

Premium rates for group business are reviewed annually. The HIV/Aids provision is based on the expected HIV/Aids claims in a year and the time that may elapse before premium rates and underwriting conditions can be suitably adjusted should actual experience be worse than expected.

Provisions for minimum investment return guarantees

In addition to the liabilities described above, provision is made consistent with actuarial guidance note PGN 110 for the possible cost of minimum investment return guarantees provided by some participating and market-related policies.

Working capital

To the extent that the management of working capital gives rise to profits, no credit is taken for this in determining the policy liabilities.

Capital adequacy requirements

The excess of assets over liabilities of life insurance operations should be sufficient to cover the capital adequacy requirements in terms of the LTIA, PGN 104 and PGN 110. The capital adequacy requirements provide a buffer against experience worse than that assumed in the financial soundness valuation.

On the valuation date the ordinary capital adequacy requirements were used as they exceeded the termination capital adequacy requirements.

The largest element of the capital adequacy requirements relates to stabilised bonus business. Consistent with an assumed fall in the fair value of the assets (the resilience scenario), which is prescribed in the ASSA guidance notes, the calculation of the capital adequacy requirements takes into account a reduction in non-vesting bonuses and future bonus rates and for the capitalisation of some expected future profits (resulting from second-tier margins in the valuation basis and held as part of the liabilities). The resilience scenario assumes that equity values decline by 30%, property values by 15%, and that fixed interest yields increase or decrease by 3% (whichever gives the worst result) on the valuation date and do not subsequently recover within the short-term.

at 31 December 2004

	Note	2004 R million	2003 R million
Assets			
Property and equipment	1	184	220
Owner-occupied properties	2	380	390
Goodwill	3	1 865	1 855
Investments	4	191 913	156 622
Investment properties		12 072	11 315
Associated companies		10 850	6 000
Joint ventures		165	309
Equities		90 075	70 519
Public sector stocks and loans		44 188	36 992
Debentures, insurance policies and other loans		16 845	16 004
Cash, deposits and similar securities		17 718	15 483
Deferred tax	5	342	257
Short-term insurance technical assets	6	1 980	2 302
Working capital assets		31 360	34 410
Trade and other receivables	7	20 211	22 602
Cash, deposits and similar securities		11 149	11 808
Total assets		228 024	196 056
Equity and liabilities			
Capital and reserves			
Share capital and premium	8	4 360	3 514
Treasury stock		(486)	(403)
Non-distributable reserves		9 415	9 415
Revaluation reserve		2 843	–
Retained earnings		11 510	9 161
Shareholders' funds		27 642	21 687
Minority shareholders' interest		2 796	1 931
Long-term policy liabilities	10	162 226	134 079
Insurance contracts		107 889	94 556
Investment contracts		54 337	39 523
Term finance	11	4 791	4 200
Deferred tax	5	1 678	651
Short-term insurance technical provisions	6	5 198	5 156
Working capital liabilities		23 693	28 352
Trade and other payables	12	22 041	26 926
Provisions	13	465	499
Taxation		1 187	927
Total equity and liabilities		228 024	196 056
Segregated funds not included in the above balance sheet		121 678	83 181
Total assets under management and administration		349 702	279 237
Net asset value per share (cents)	14	1 100	883

SANLAM GROUP
INCOME STATEMENT

for the year ended 31 December 2004

	Note	2004 R million	2003 R million
Funds received from clients	15	70 731	48 883
Financial services income	16	17 079	15 970
Sales remuneration		(1 961)	(1 892)
Income after sales remuneration		15 118	14 078
Underwriting policy benefits	17	(6 965)	(6 877)
Administration costs	18	(4 633)	(4 796)
Result from operations before tax	19	3 520	2 405
Tax on result from operations	20	(1 032)	(724)
Result from operations after tax		2 488	1 681
Minority shareholders' interest		(520)	(279)
Net result from operations		1 968	1 402
Net investment income		403	458
Investment income	21	648	699
Tax on investment income	20	(102)	(131)
Minority shareholders' interest		(143)	(110)
Net equity-accounted earnings	22	969	781
Equity-accounted earnings		1 298	1 025
Tax on equity-accounted earnings	20	(329)	(244)
Core earnings		3 340	2 641
Financial assistance provided to policyholders' funds		–	(290)
Net investment surpluses on derivative instruments		(155)	–
Investment surpluses on derivative instruments	21	(218)	–
Tax on investment surpluses on derivative instruments	20	48	–
Minority shareholders' interest		15	–
Headline earnings		3 185	2 351
Net realised investment surpluses		700	134
Realised investment surpluses	21	779	215
Tax on realised investment surpluses	20	1	(56)
Minority shareholders' interest		(80)	(25)
Net discontinuance costs	23	(18)	(77)
Discontinuance costs		(20)	(108)
Tax on discontinuance costs	20	2	31
Impairment of investments and goodwill	3	(256)	(248)
Amortisation of goodwill	3	(328)	(277)
Attributable earnings		3 283	1 883
Diluted earnings per share:		Cents	Cents
• **Net result from operations**	24	72,1	53,2
• **Core earnings**	24	122,3	100,2
• **Headline earnings**	24	116,6	89,2
• **Attributable earnings**	24	120,2	71,5
Basic attributable earnings per share	24	121,7	72,1
Dividend per share	25	50,0	40,0
Adjusted headline earnings based on the long-term rate of return (LTRR) (R million)	26	4 141	3 291
Adjusted diluted headline earnings based on the LTRR (cents per share)	24	151,6	124,9

R million	Note	Share capital	Share premium	Treasury shares	Non-distri-butable reserve[1]	Revalu-ation reserve[2]	Retained earnings	Total
Balance at 1 January 2003		27	3 487	(59)	9 415	–	7 781	20 651
Attributable earnings for the year		–	–	–	–	–	1 883	1 883
Transfer from retained earnings (unrealised surpluses)		–	–	–	–	(1 070)	1 070	–
Adoption of AC133		–	–	–	–	–	(13)	(13)
Net unrealised investment surpluses		–	–	–	–	693	–	693
Unrealised investment surpluses	21	–	–	–	–	1 047	–	1 047
Tax on unrealised investment surpluses	20	–	–	–	–	(289)	–	(289)
Minority shareholders' interest		–	–	–	–	(65)	–	(65)
Movement in foreign currency translation reserve		–	–	–	–	(211)	–	(211)
Transfer to revaluation reserve		–	–	–	–	588	(588)	–
Dividends paid		–	–	–	–	–	(972)	(972)
Cost of treasury shares acquired		–	–	(344)	–	–	–	(344)
Balance at 31 December 2003		27	3 487	(403)	9 415	–	9 161	21 687
Attributable earnings for the year		–	–	–	–	–	3 283	3 283
Net unrealised investment surpluses		–	–	–	–	3 588	–	3 588
Unrealised investment surpluses	21	–	–	–	–	4 718	–	4 718
Tax on unrealised investment surpluses	20	–	–	–	–	(865)	–	(865)
Minority shareholders' interest		–	–	–	–	(265)	–	(265)
Cost of treasury shares donated to the Sanlam Ubuntu-Botho Community Development Trust		–	–	–	–	–	(314)	(314)
Net realised investment surplus on other treasury shares		–	–	–	–	–	(126)	(126)
Movement in foreign currency translation reserve		–	–	–	–	(157)	–	(157)
Transfer from revaluation reserve[3]		–	–	–	–	(588)	588	–
Dividends paid		–	–	–	–	–	(1 082)	(1 082)
New shares issued[4]		2	863	–	–	–	–	865
Costs relating to share issuance		–	(19)	–	–	–	–	(19)
Cost of treasury shares acquired[5]		–	–	(83)	–	–	–	(83)
Balance at 31 December 2004		29	4 331	(486)	9 415	2 843	11 510	27 642

[1] *Pre-acquisition reserve arising upon demutualisation of Sanlam Life Insurance Ltd.*

[2] *Upon the introduction of AC133, investments were classified as available-for-sale and Sanlam elected to take unrealised investment surpluses directly to equity. The revaluation reserve is used for this purpose. The revaluation reserve also includes the net loss of R368 million arising on the translation of foreign entities.*

[3] *Transfer of cumulative revaluation deficit on 31 December 2003 from retained earnings.*

[4] *Comprises 113 million new ordinary shares at R7,65 per share, 56,5 million "A" deferred shares at R0,01 per share and 52 million "A" preference shares at R0,01 per share.*

[5] *Comprises movement in cost of shares held by subsidiaries and the share incentive trust.*

CASH FLOW STATEMENT

for the year ended 31 December 2004

	Note	2004 R million	2003 R million
Net cash flow from operating activities		62	378
Cash generated from operations before working capital changes	33.1	2 422	1 027
Working capital changes		(1 283)	(399)
Interest received	33.2	2 219	3 156
Interest paid		(1 358)	(2 096)
Dividends received	33.3	185	357
Cash inflow from operating activities before taxation and dividends paid		2 185	2 045
Taxation	33.4	(1 061)	(716)
Dividends paid	33.5	(1 062)	(951)
Net cash flow from investment activities		(1 331)	129
Net acquisition of investments		(2 034)	(519)
Interest received	33.2	345	263
Dividends received	33.3	571	511
Rental income received	33.6	66	18
Acquisition of subsidiaries	33.7	(347)	(144)
Disposal of subsidiaries	33.8	68	–
Net cash flow from financing activities		453	(1 463)
New shares issued net of costs		846	–
Net term finance raised/(repaid)		130	(1 170)
Acquisition of treasury shares		(523)	(293)
Cash flow from movement in policyholders' funds		–	–
Increase in policyholders' investments	33.9	28 147	4 864
Increase in policy liabilities		(28 147)	(4 864)
Net decrease in cash and cash equivalents		(816)	(956)
Cash, deposits and similar securities at beginning of year		11 769	12 725
Cash, deposits and similar securities at end of year	33.10	10 953	11 769

	2004 R million	2003 R million
1. PROPERTY AND EQUIPMENT		
Land and buildings	5	–
Computer equipment	64	74
Cost	325	335
Accumulated depreciation	(261)	(261)
Furniture, equipment and vehicles	115	146
Cost	274	333
Accumulated depreciation	(159)	(187)
Total property and equipment	184	220
The reconciliation of the movement in the book value of property and equipment is not provided, as it is not considered material in relation to the Group's activities.		
2. OWNER-OCCUPIED PROPERTIES		
Balance at beginning of year	390	381
Transfer from property and equipment at depreciated value	(3)	17
Transfer to investment properties	–	(6)
Depreciation	–	(2)
Disposals	(8)	–
Expenditure capitalised	1	–
Balance at end of year	380	390
Register of owner-occupied properties		
A register containing details of all owner-occupied properties is available for inspection at the registered office of Sanlam Limited.		
3. GOODWILL		
Balance at beginning of year	1 855	1 992
Additions during the year	421	298
Net consideration paid	408	605
Fair value of net assets acquired	(74)	(360)
Minority shareholders' interest	87	53
Disposals during the year	(22)	–
Amortisations	(353)	(295)
Net amortisation per income statement	(328)	(277)
Amortisation of goodwill on associated companies included above	5	–
Share of associated companies' goodwill amortisation included above	–	6
Minority shareholders' interest included above	(30)	(24)
Impairments	(36)	(140)
Net impairment included in income statement	(25)	(145)
Share of associated companies' goodwill impairment included above	–	9
Minority shareholders' interest included above	(11)	(4)
Balance at end of year	1 865	1 855

	2004 R million	2003 R million
3. GOODWILL *(continued)*		
Impairments		
Impairment of investments	231	103
Safair lease finance	210	100
Other	21	3
Impairment of goodwill	25	145
Total impairment of investments and goodwill after minority shareholders' interest	256	248

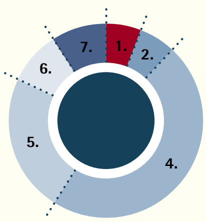
The estimasted useful life of goodwill is between three and ten years and it is amortised with effect from the acquisition dates, except if acquired on or after 31 March 2004.

The additions to goodwill during 2004 arose primarily from the acquisition of Merchant Investors Assurance and a controlling interest in the Namibian-based Consolidated Financial Services.

The impairment of goodwill relates mainly to the UK stockbroking firm, Hichens Harrison and the discontinued operations of Gensec Bank.

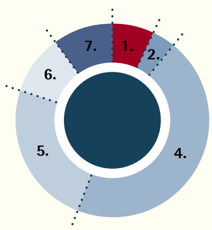
4. INVESTMENTS

TOTAL INVESTMENT MIX
2004



1. Investment properties 6%
2. Associated companies 6%
3. Joint ventures 0%
4. Equities 47%
5. Public sector stocks and loans 23%
6. Debentures, insurance policies and other loans 9%
7. Cash, deposits and similar securities 9%

TOTAL INVESTMENT MIX
2003



1. Investment properties 7%
2. Associated companies 4%
3. Joint ventures 0%
4. Equities 45%
5. Public sector stocks and loans 24%
6. Debentures, insurance policies and other loans 10%
7. Cash, deposits and similar securities 10%

	2004 R million	2003 R million
Investment properties comprise the following:		
Office buildings	3 662	4 228
Retail buildings	4 405	4 877
Industrial buildings	454	577
Property developments	25	28
Undeveloped land	116	111
International properties	1 416	233
Listed property	1 588	798
Other	406	463
Total investment properties	12 072	11 315
Reconciliation of carrying amount of investment properties		
Fixed properties – balance at beginning of year	10 517	10 491
Acquisitions	316	85
Acquisition of subsidiary	1 062	–
Disposals	(2 272)	(618)
Exchange rate differences	(118)	–
Investment surpluses	979	559
Fixed properties – balance at end of year	10 484	10 517
Listed property	1 588	798
Total investment properties	12 072	11 315
Investments in associated companies		
Absa Limited	10 628	5 848
Other associated companies	222	152
Total investments in associated companies	10 850	6 000

		2004 R million	2003 R million
4. INVESTMENTS *(continued)*			
Details of material associated companies			
Absa Limited			
Fair value of interest	R million	10 628	5 848
Number of shares held	000s	139 815	138 788
Interest in issued share capital	%		
Shareholders' funds		19,1	18,9
Policyholders' funds		2,2	2,2
Average interest in issued share capital for the year	%		
Shareholders' funds		19,0	19,6
Policyholders' funds		2,4	3,4
Share of headline earnings after tax for current year	R million		
Shareholders' funds		909	793
Policyholders' funds		116	136
Distributions received	R million		
Shareholders' funds		253	198
Policyholders' funds		52	50
Aggregate post-acquisition reserves attributable to shareholders' funds	R million	2 389	1 733

The financial year-end of Absa Limited is 31 March. The equity-accounted earnings for Absa Limited included in the Sanlam Limited group results are for the twelve-month period ended 30 September and were derived from their published annual financial statements and interim results. The Sanlam group's share of these earnings is included in investment income.

	2004 R million	2003 R million
Absa Limited financial information as at 30 September		
Headline earnings	4 786	4 040
Total assets	313 860	283 909
Total liabilities	292 569	265 762
Investments in joint ventures		
Safair Lease Finance (Proprietary) Limited	140	309
Other joint ventures	25	–
Total investments in joint ventures	165	309

Details of material joint ventures

Safair Lease Finance (Proprietary) Limited

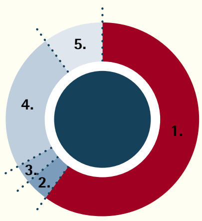
The Group holds a 50% interest in a jointly controlled entity, Safair Lease Finance (Proprietary) Limited. The interest is accounted for on an equity-accounted basis.

	2004 R million	2003 R million
Carrying value of interest[1]	140	309
Share of earnings after tax	43	44
Share of assets	1 862	1 897
Non-current	1 766	1 849
Current	96	48
Share of liabilities		
Non-current	1 112	1 066
Interest bearing	1 090	1 063
Non-interest bearing	22	3
Current	299	424
Interest bearing	295	408
Non-interest bearing	4	16

[1] *The appreciaion in the value of the rand required a review of the value placed on this investment, resulting in an impairment of R210 million (2003: R100 million).*

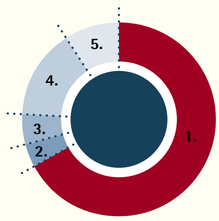
	2004 R million	2003 R million
4. INVESTMENTS *(continued)*		
Equity investments		
Listed on the JSE – at market value	54 728	46 946
Unlisted – at directors' valuation	3 175	2 791
Derivative equity investments	2 521	3 552
Offshore equity investments	20 862	10 645
Collective investment schemes	8 789	6 585
Total equity investments	90 075	70 519
Classification of equity investments		
Available-for-sale at fair value	87 554	66 967
Held for trading at fair value	2 521	3 552
Total equity investments	90 075	70 519

TOTAL EQUITY INVESTMENTS MIX
2004



1. Listed on the JSE – at market value		60%
2. Unlisted – at director's valuation		4%
3. Derivative equity investments		3%
4. Offshore equity investments		23%
5. Collective investment schemes		10%

TOTAL EQUITY INVESTMENTS MIX
2003



1. Listed on the JSE – at market value		67%
2. Unlisted – at director's valuation		4%
3. Derivative equity investments		5%
4. Offshore equity investments		15%
5. Collective investment schemes		9%

	2004 %	2003 %
Spread of investments in equities listed on JSE by sector[2]		
Basic Industries	2,0	3,9
Cyclical consumer goods	3,4	3,3
Cyclical services	11,6	7,2
Financials	31,5	30,0
General industrials	7,5	4,5
Information technology	0,6	0,6
Non-cyclical consumer goods	8,0	7,4
Non-cyclical services	8,2	6,3
Resources	15,8	27,1
Other	11,4	9,7
	100	100

[2] *Includes the appropriate underlying investments of Santam.*

	R million	R million
Debentures, insurance policies and other loans comprise the following:		
Available-for-sale at fair value	12 245	10 714
Held for trading at fair value	1 754	2 047
Loans and receivables originated by the entity at amortised cost	2 846	3 243
Total debentures, insurance policies and other loans	16 845	16 004

		2004 R million	2003 R million
4. INVESTMENTS *(continued)*			
Direct offshore investments			
Equities		20 862	10 645
Interest-bearing investments		10 229	7 635
Total offshore investments		31 091	18 280
Shares held in holding company			
Sanlam Limited shares held by policyholders' funds reflected as investments			
Number	million	140	153
Fair value	R million	1 824	1 344

Maturity analysis of:

Public sector stocks and loans; debentures, insurance policies and other loans; deposits and similar securities as at:

	<1 year	1–5 years	>5 years	Open ended	Total
31 December 2004					
Public sector stocks and loans	7 166	5 447	25 473	6 102	44 188
Debentures, insurance policies and other loans	2 277	7 702	5 120	1 746	16 845
Cash, deposits and similar securities	15 701	1 289	152	576	17 718
Total investments other than equities and investment properties	25 144	14 438	30 745	8 424	78 751
31 December 2003					
Public sector stocks and loans	6 688	3 825	22 281	4 198	36 992
Debentures, insurance policies and other loans	1 224	9 572	4 292	916	16 004
Cash, deposits and similar securities	13 916	1 124	129	314	15 483
Total investments other than equities and investment properties	21 828	14 521	26 702	5 428	68 479

Register of investments

A register containing details of all investments, including fixed property investments, is available for inspection at the registered office of Sanlam Limited.

Investments encumbered

On 31 December 2004 no investments were encumbered (2003: R nil).

5. DEFERRED TAX

Reconciliation of the deferred tax balances:

	Income Tax		Capital Gains Tax	
	Asset R million	Liability R million	Asset R million	Liability R million
Balance at 1 January 2003	**170**	**(34)**	**67**	**(115)**
Temporary differences charged to income statement	19	(30)	68	(5)
Accruals and provisions	(10)	(30)	–	–
Tax losses and credits	28	–	–	–
Net unrealised investment surpluses on shareholders' investments	–	–	68	(5)
Other temporary differences	1	–	–	–
Temporary differences charged directly to equity – net unrealised investment surpluses on shareholders' investments	–	–	8	(225)
Net unrealised investment surpluses on policyholders' investments	–	–	–	(248)
Prior year adjustment by subsidiary	(11)	–	(64)	–
Acquisition of subsidiaries – normal	–	6	–	–
Balance at 31 December 2003	**178**	**(58)**	**79**	**(593)**
Temporary differences charged to income statement	78	93	(3)	27
Accruals and provisions	(34)	74	–	(5)
Tax losses and credits	107	–	–	–
Net unrealised investment surpluses on shareholders' investments	–	22	–	32
Other temporary differences	5	(3)	(3)	–
Temporary differences charged directly to equity – net unrealised investment surpluses on shareholders' investments	–	(101)	–	(737)
Net unrealised investment surpluses on policyholders' investments	–	–	–	(309)
Prior year adjustment by subsidiary	92	–	(76)	–
Disposal of subsidiaries – normal	(6)	–	–	–
Balance at 31 December 2004	**342**	**(66)**	**–**	**(1 612)**
Analysis of the deferred tax balances:				
Accruals and provisions	79	74	–	(5)
Tax losses and credits	261	–	–	–
Net unrealised investment surpluses on shareholders' investments	–	(134)	–	(936)
Net unrealised investment surpluses on policyholders' investments	–	–	–	(671)
Other temporary differences	2	(6)	–	–
Total deferred tax balances	**342**	**(66)**	**–**	**(1 612)**

	2004 R million	2003 R million
Total deferred tax asset	342	257
Total deferred tax liability	(1 678)	(651)
Total net deferred tax	**(1 336)**	**(394)**

			2004 R million	2003 R million
6. SHORT-TERM INSURANCE TECHNICAL PROVISIONS				
Short-term insurance technical provisions			5 198	5 156
Outstanding claims			3 174	2 989
Provision for unearned premiums			1 909	2 036
Deferred reinsurance acquisition revenue			115	131
Less: Short-term insurance technical assets			1 980	2 302
Reinsurers' share of technical provisions	– outstanding claims		1 197	1 283
	– unearned premiums		637	865
Deferred acquisition cost			146	154
Net short-term insurance technical provisions			3 218	2 854
7. TRADE AND OTHER RECEIVABLES				
Premiums receivable			4 027	4 048
Accrued investment income			1 090	1 048
Trading account and money market investments			12 686	10 896
Accounts receivable			2 408	6 610
Total trade and other receivables			20 211	22 602
Trading account investments of R4 988 million are encumbered as at 31 December 2004 (2003: R159 million).				
8. SHARE CAPITAL AND PREMIUM				
Authorised share capital				
4 000 million ordinary shares of 1 cent each		R million	40,0	40,0
56,5 million 'A' deferred shares of 1 cent each		R million	0,6	–
56,5 million 'B' deferred shares of 1 cent each		R million	0,6	–
52 million 'A' preference shares of 1 cent each		R million	0,5	–
Balance at end of year		R million	41,7	40,0
Issued share capital: ordinary shares				
Total shares in issue at beginning of year		million	2 654,6	2 654,6
New shares issued during the year		million	113,0	–
Total shares in issue at end of year		million	2 767,6	2 654,6
Shares held by subsidiaries		million	(47,5)	(69,4)
Balance at end of year		million	2 720,1	2 585,2
Issued share capital: other shares				
Total number of 'A' deferred shares in issue		million	56,5	–
Total number of 'A' preference shares in issue		million	52,0	–
Nominal value and share premium				
Nominal value of 1 cent per share		R million	28,0	26,5
Share premium		R million	4 331,0	3 487,1
'A' deferred shares		R million	0,6	–
'A' preference shares		R million	0,5	–
Total nominal value and share premium		R million	4 360,1	3 513,6

8. SHARE CAPITAL AND PREMIUM *(continued)*

All new authorised and issued shares in 2004 relate to the empowerment transaction with Ubuntu-Botho.

The 'A' deferred shares shall be converted to ordinary shares at nil rand value when the accrued value of R7,65 per share has been achieved, in accordance with the contractual new business volumes formula, within a ten-year period from 1 January 2004. The 'A' deferred shares which are not converted to ordinary shares in December 2013 shall be converted to redeemable preference shares which shall be redeemed at par value within 30 days of such conversion.

The 'B' deferred shares shall be alotted and issued once all the 'A' deferred shares qualify for conversion to ordinary shares. The 'B' deferred shares shall be converted to ordinary shares on the same terms as the 'A' deferred shares.

The 'A' preference shares which have been issued to the Demutualisation Trust, entitle the Demutualisation Trust to convert the 'A' preference shares at R7,65 per share to ordinary shares, if and to the extent that the Demutualisation Trust requires the delivery of such ordinary shares to enable it to comply with its obligations in terms of the Demutualisation Trust Deed. Should such a conversion occur, the Demutualisation Trust is required to transfer an equivalent number of Ubuntu-Botho 'A' preference shares held by the Trust to Sanlam. On termination of the Demutualisation Trust, all outstanding 'A' preference shares will be redeemed at par.

A register containing details of rights attached to the deferred and preference shares, is available for inspection at the registered office of Sanlam Limited.

Authorised and unissued shares

Subject to the restrictions imposed by the Companies Act, the authorised and unissued shares, to a maximum of 275 million shares, are under the control of the directors until the forthcoming annual general meeting.

	2004		2003	
	Shares 000s	Options 000s	Shares 000s	Options 000s
Executive share incentive scheme				
Restricted shares and share options at the beginning of the year	2 805	109 513	6 746	109 865
New options granted	–	35 647	–	35 757
Unconditional options and shares released, available for release, or taken up	(1 811)	(32 632)	(4 039)	(28 226)
Options lapsed or cancelled	(106)	(6 179)	–	(7 883)
Cash dividends received on restricted shares and converted into shares	12	–	98	–
Restricted shares and share options at the end of the year	900	106 349	2 805	109 513
Unrestricted shares at the end of the year	520	31 232	1 101	60 571
Total number of options at the end of the year	1 420	137 581	3 906	170 084
Less: Shares issued	(1 420)	(5 506)	(3 906)	(12 236)
Outstanding shares	–	132 075	–	157 848
Outstanding share options as a percentage of total issued ordinary shares		4,8%		5,9%
Approved maximum level of outstanding share options as a percentage of total issued shares		7,5%		7,5%

Details regarding the restricted shares and share options outstanding on 31 December 2004 and the financial years during which they become unconditional, are as follows:

Unconditional during year ending	Number of shares 000s	Options 000s	Average option price R
31 December 2005	767	19 273	8,10
31 December 2006	98	22 308	7,16
31 December 2007	28	30 091	7,65
31 December 2008	7	24 267	7,46
31 December 2009 and later	–	10 410	8,18

	2004 R million	2003 R million
9. CONTINGENCY RESERVES		
Contingency reserves in respect of short-term insurance business of R337 million are included in shareholders' reserves (2003: R266 million) and R22 million (2003: R42 million) in the net assets underlying policy liabilities.		
10. LONG-TERM POLICY LIABILITIES		
10.1 Analysis of movement in policy liabilities		
Income	46 148	36 452
Premium income (note 10.2)	22 256	20 174
Investment return (note 10.3)	23 892	16 278
Outflow	(30 908)	(31 588)
Policy benefits (note 10.4)	(18 929)	(19 159)
Retirement fund terminations	(4 020)	(3 475)
Transfer to segregated assets	(297)	(1 815)
Taxation (note 10.5)	(538)	(442)
Fees, risk premiums and other payments to shareholders' funds	(7 124)	(6 697)
Net movement for the year	15 240	4 864
Liabilities acquired with acquisition of subsidiaries	14 364	–
Foreign currency translation differences	(1 457)	–
Balance at beginning of the year	134 079	129 215
Balance at end of the year	162 226	134 079
10.2 Analysis of premium income		
Individual insurance	16 717	14 838
Recurring	9 368	8 771
Single	5 783	4 507
Continuations	1 566	1 560
Employee benefits	5 539	5 336
Recurring	3 110	2 952
Single	2 429	2 384
Total premium income	22 256	20 174
10.3 Investment return: policyholders' funds		
Investment income	7 753	7 940
Interest-bearing investments	4 403	4 757
Equities	2 231	2 112
Properties	1 119	1 071
Rental income	1 388	1 431
Rental related expenses	(269)	(360)
Net investment surpluses	16 139	8 338
Investment return	23 892	16 278

	2004 R million	2003 R million
10. LONG-TERM POLICY LIABILITIES *(continued)*		
10.4 Analysis of long-term policy benefits		
Individual insurance	15 213	15 587
Maturity benefits	7 583	8 778
Surrenders	4 012	3 136
Life and term annuities	3 143	3 165
Death and disability benefits[1]	455	443
Cash bonuses[1]	20	65
Employee benefits	3 716	3 572
Withdrawal benefits	1 793	1 685
Pensions	1 160	1 098
Lump-sum retirement benefits	556	535
Taxation paid on behalf of certain retirement funds	87	112
Death and disability benefits[1]	70	93
Cash bonuses[1]	50	49
Total long-term policy benefits	18 929	19 159

[1] *Excludes death and disability benefits and cash bonuses underwritten by the shareholders (refer note 17).*

	2004 R million	2003 R million
10.5 Taxation: policyholders' funds		
Income tax		
Normal income tax	96	31
– RSA: current year	14	–
– RSA: prior year	10	–
– Foreign: current year	66	31
– Foreign: prior year	6	–
Capital gains tax	314	248
– normal	5	–
– deferred	309	248
Tax on retirement funds	128	163
Total taxation: policyholders' funds	538	442

A deferred tax asset has not been recognised for estimated assessed losses in the policyholders' tax funds as it is uncertain whether and when these losses will be utilised.

	2004 R million	2003 R million
10. LONG-TERM POLICY LIABILITIES *(continued)*		
10.6 Composition of policy liabilities		
Individual insurance	124 832	98 103
Market-related liabilities	51 071	30 300
Stable bonus fund	28 827	25 955
Reversionary bonus policies	9 040	8 372
Non-participating annuities	17 342	15 350
Other non-market-related liabilities	18 552	18 126
Employee benefits	37 394	35 976
Market-related liabilities	13 303	13 098
Stable bonus portfolios	11 226	10 817
Participating annuities	8 391	8 111
Non-participating annuities	2 769	2 423
Other non-market-related liabilities	1 705	1 527
Total policy liabilities	162 226	134 079

10.7 Maturity analysis of investment policy contracts

	<1 year	1–5 years	>5 years	Open ended	Total
2004: R million					
Linked: indeterminable term	–	–	–	20 058	20 058
Market-related and smoothed bonus	1 564	5 122	17 391	177	24 254
Guarantee plans	2 620	5 231	98	–	7 949
Annuities	114	1 420	230	–	1 764
Liabilities that cannot be split by outstanding term	–	–	–	312	312
Total investment policies	**4 298**	**11 773**	**17 719**	**20 547**	**54 337**
2003: R million					
Linked: indeterminable term	–	–	–	17 201	17 201
Market-related and smoothed bonus	790	4 273	4 534	1 759	11 356
Guarantee plans	2 495	6 315	–	–	8 810
Annuities	105	1 383	406	–	1 894
Liabilities that cannot be split by outstanding term	–	–	–	262	262
Total investment policies	**3 390**	**11 971**	**4 940**	**19 222**	**39 523**

	2004 R million	2003 R million
10.8 Policy liabilities include the following:		
HIV/Aids reserve	2 377	2 075
Reduction in earnings caused by using a retrospective HIV/Aids valuation basis instead of a prospective valuation basis	(90)	(127)
Asset mismatch reserve	731	636

Refer note 34.2 for restatement of comparative figures.

	2004 R million	2003 R million
11. TERM FINANCE		
Term finance consists of:		
Redeemable cumulative non-voting preference shares issued by subsidiary companies, with dividend terms that range between 7,20% and 13,50% or linked to prime interest rates. The preference shares have different redemption dates up to 2014.	4 038	3 968
Obligation for post-retirement medical fund contributions in respect of clients – matched by assets held in this regard.	224	199
Obligations for promissory notes, zero coupons, interest rate derivatives and fixed interest derivatives.	486	–
Unsecured convertible loan notes and unsecured non-convertible loan notes. At 2004 year-end the interest rates on these loans were 4,47% and 2,77% respectively (2003: 3,13% and 1,43%).	12	25
Other	31	8
Total term finance	4 791	4 200
Portion potentially repayable within one year included above	2 991	1 949
Reconciliation of total term finance with matching assets		
Total term finance liabilities		
Total term finance as per above note	4 791	4 200
Add: Short-term portion included in working capital liabilities	413	–
Add: Preference shares issued to subsidiaries and eliminated on consolidation	393	688
Total term finance liabilities	5 597	4 888
Assets that match term finance liabilities		
Investment properties	6	17
Equities	634	330
Public sector stocks and loans	170	101
Debentures, insurance policies and other loans	3 000	3 034
Cash, deposits and similar securities	1 808	1 415
Working capital assets and liabilities	(40)	(34)
Total assets held in respect of term finance liabilities	5 578	4 863
Term finance liabilities not covered by assets	19	25
Total term finance liabilities	5 597	4 888
12. TRADE AND OTHER PAYABLES		
Trading account and money market liabilities	13 972	18 758
Accounts payable	5 056	5 829
Policy benefits payable	1 637	1 569
Short-term portion of term finance	413	–
Bank overdrafts	196	39
Claims incurred but not reported	767	731
Total trade and other payables	22 041	26 926
A portion of trade and other payables is secured by trading account and money market investments as detailed in note 7.		

13. PROVISIONS

Details of the different classes of provisions are as follows:

	Restructuring R million	Possible claims R million	Post-retirement medical aid R million	Onerous contracts R million	Other R million	Total R million
Balance at 1 January 2003	12	182	84	62	123	463
Charged to income statement	112	24	(23)	12	(3)	122
Additional provisions	112	24	–	12	12	160
Unused amounts reversed	–	–	(23)	–	(15)	(38)
Utilised during the year	(12)	(4)	(16)	(16)	(38)	(86)
Balance at 31 December 2003	112	202	45	58	82	499
Charged to income statement	(21)	130	5	–	46	160
Additional provisions	–	130	8	12	46	196
Unused amounts reversed	(21)	–	(3)	(12)	–	(36)
Utilised during the year	(83)	(62)	(6)	(27)	(16)	(194)
Balance at 31 December 2004	8	270	44	31	112	465
Analysis of provisions						
Current	8	72	6	25	15	126
Non-current	–	198	38	6	97	339
Total provisions at 31 December 2004	8	270	44	31	112	465

Restructuring

Provision is made for employee termination costs in terms of an announced restructuring plan for Gensec Bank.

The restructuring was substantially completed during 2004.

Possible claims

The Group provides for possible claims that may arise as a result of past events, transactions or investments. Due to the nature of the provision, the timing of the expected cash outflows are uncertain.

Estimates are reviewed annually and adjusted as appropriate for new circumstances.

Post-retirement medical aid contribution

The Group provides for the future medical aid contributions for certain pensioners, disabled staff members and disabled advisors.

The provision represents the present value of future contributions which is actuarially determined on an annual basis. Refer to note 29: Retirement benefits for employees.

Onerous contracts

Provision is made for the full term of the contractual rental payable in respect of vacated offices where the lease term has not yet expired. A provision for related costs (e.g. electricity) is also included.

Other

Includes sundry provisions for possible outflows of resources from the Group arising from past events. None of the items are individually material.

	2004 Million	2003 Million
14. NET ASSET VALUE PER SHARE		
Net asset value per share is calculated on the Group shareholders' funds of R29 982 million (2003: R22 819 million), after adjusting for the shareholders' interest in Santam, Sanlam Capital Markets, Sanlam Investments, Sanlam International, Multi-Data, Sanlam Home Loans, Direct Axis, Sanlam Trust, Gensec Property Services and other Independent Financial Services Cluster businesses from net asset value to fair value, divided by 2 725,9 million (2003: 2 585,2 million) shares.		
Number of shares for value per share calculations		
Total shares in issue (excluding shares held by subsidiaries) (refer note 8)	2 720,1	2 585,2
Convertible deferred shares held by Ubuntu-Botho at 31 December 2004	5,8	–
Adjusted number of shares for value per share calculations	2 725,9	2 585,2

	R million	R million
15. FUNDS RECEIVED FROM CLIENTS		
Analysis per product (Refer to page 222 for analysis per cluster)		
Insurance business – Premium income	29 798	26 864
Long-term insurance (note 10.2)	22 256	20 174
Transfer to segregated funds	(177)	(65)
Short-term insurance	7 719	6 755
Other business	40 933	22 019
Collective investment schemes	12 255	8 243
Linked products	6 068	5 103
Segregated funds	22 610	8 673
Total funds received from clients	70 731	48 883
The funds received from clients are disclosed net of the following reinsurance premiums:		
Long-term insurance	185	153
Short-term insurance	2 118	2 491

	2004 R million	2003 R million
16. FINANCIAL SERVICES INCOME		
Analysis per revenue source		
Long-term insurance	7 733	7 270
Short-term insurance	7 922	6 960
Other financial services	1 424	1 740
Total financial services income	17 079	15 970
Analysis per revenue category		
Fees and other income	18 626	17 530
Reinsurance premiums paid	(2 303)	(2 644)
Trading loss	(388)	(270)
Foreign exchange losses	(3)	(22)
Dividend income	178	365
Interest received	2 271	3 088
Interest paid and term finance costs	(1 358)	(2 096)
Equity-accounted earnings	56	19
Total financial services income	17 079	15 970
17. UNDERWRITING POLICY BENEFITS		
Long-term insurance: death, disability and cash bonuses	2 568	2 502
Individual insurance	1 255	1 222
Employee benefits	1 313	1 280
Short-term insurance	4 397	4 375
Total underwriting policy benefits	6 965	6 877

	2004 R million	2003 R million
18. ADMINISTRATION COSTS INCLUDE:		
Directors' remuneration		
Total remuneration paid by Sanlam Limited and its consolidated subsidiaries to its present and previous directors of Sanlam Limited:		
Present		
Directors' fees	6,0	4,2
Other services (basic remuneration, pensions and bonuses)	14,1	21,5
Previous		
Directors' fees	0,3	2,5
Other services (basic remuneration, pensions and bonuses)	6,7	8,3
Total directors' remuneration	27,1	36,5
Analysis of directors' remuneration		
Executive directors	20,9	30,2
Non-executive directors	6,2	6,3
Total directors' remuneration	27,1	36,5
Directors' remuneration paid by subsidiaries	22,3	31,8
Auditors' remuneration		
Audit fees	29	28
Other services	23	10
Subsidiaries' own auditors	8	7
Other Group auditors	15	3
Total auditors' remuneration	52	38
Depreciation	71	79
Operating leases	255	271
Properties	136	156
Equipment	106	100
Other	13	15
Consultancy fees	164	195
Technical, administrative and secretarial fees	31	24
Office staff costs	2 624	2 650
Office staff (number of persons)	8 575	9 570
19. ANALYSIS OF RESULT FROM OPERATIONS		
Life insurance	1 768	1 467
Short-term insurance	1 369	735
Investment management	431	270
Sanlam Capital Markets	90	55
Independent Financial Services	50	(1)
Discontinued operations	(77)	(74)
Corporate income	75	73
Corporate costs	(186)	(120)
Result from operations before tax	3 520	2 405
Geographical analysis		
Southern African	3 284	2 385
International	236	20
Result from operations before tax	3 520	2 405

	2004 R million	2003 R million
20. TAXATION: SHAREHOLDERS' FUNDS		
Analysis of income tax on earnings of shareholders' funds		
Result from operations	1 032	724
Current year	1 018	714
Prior year	(4)	9
Equity-accounted earnings included in result from operations	18	1
Investment income – current year	102	131
Equity-accounted earnings	329	244
Investment surpluses on derivative instruments	(48)	–
Realised investment surpluses	(1)	56
Discontinuance costs	(2)	(31)
Income tax charged to income statement	1 412	1 124
Tax on unrealised investment surpluses (taken to equity)	865	289
Normal tax	128	–
Capital gains tax	110	145
Capital gains tax on surplus on investment in associated company	627	144
Total income tax	2 277	1 413
Analysis of income tax per category		
Normal income tax	1 309	963
RSA – current year	1 241	805
RSA – prior year	61	44
Foreign	52	58
Capital gains tax	(45)	56
Deferred tax	(96)	(52)
Normal tax – current year	84	9
– prior year	(58)	2
Foreign	9	–
Secondary tax on companies	(100)	–
Capital gains tax on realised investment surpluses included in income statement	(31)	(63)
Capital gains tax on unrealised investment surpluses	737	289
Share of associated companies' tax charge	329	244
Tax on discontinuance costs	(2)	(31)
Total income tax	2 277	1 413
In addition to income tax the following indirect taxes and levies were paid, which are included in the appropriate items:		
Included in administration costs	158	144
Included elsewhere in the income statement	35	35
Included in policyholders' investment return	14	16
Total indirect taxes and levies	207	195

Indirect taxes and levies include value-added tax, revenue stamps paid on insurance policy contracts and statutory levies payable to the Regional Services Councils and the Financial Services Board.

Tax of R538 million (2003: R442 million) was also paid on policyholders' funds (refer note 10.5).

	2004 %	2003 %
20. TAXATION: SHAREHOLDERS' FUNDS *(continued)*		
Reconciliation of tax rate on result from operations		
Standard rate of taxation	30,0	30,0
Adjusted for:		
Non-taxable income	(2,0)	(2,2)
Disallowable expenses	1,1	1,5
Prior year adjustments	1,0	0,2
Foreign tax rate differential	(1,0)	–
Other	0,2	0,6
Effective tax rate on result from operations	29,3	30,1
Reconciliation of tax rate on investment return		
Standard rate of taxation	30,0	30,0
Adjusted for:		
Non-taxable income	(4,5)	(4,8)
Disallowable expenses	0,4	0,4
Foreign tax rate differential	–	(0,3)
Investment surpluses	(6,6)	(0,4)
Prior year adjustments	(2,1)	0,5
Equity-accounted earnings	(2,4)	(3,5)
Other	0,4	0,3
Effective tax rate on investment return	15,2	22,2

	R million	R million
21. INVESTMENT RETURN: SHAREHOLDERS' FUNDS		
Investment income	648	699
Interest-bearing investments	370	326
Equities	323	312
Properties	32	61
Rental income	53	94
Rental related expenses	(21)	(33)
Other	(77)	–
Investment surpluses on derivative instruments	(218)	–
Realised investment surpluses included in income statement	779	215
Realised investment surpluses	721	215
Profit on sale of subsidiaries	58	–
Investment return included in income statement	1 209	914
Unrealised investment surpluses taken directly to equity	4 718	1 047
Unrealised investment surpluses	1 213	371
Surplus on investment in associated company	3 505	676
Investment return: shareholders' funds	5 927	1 961

Investment return includes foreign exchange gains and losses of R5 million (2003: R21 million).

	2004 R million	2003 R million
22. NET EQUITY-ACCOUNTED EARNINGS		
Equity-accounted earnings relating to investment in Absa		
Investment return	3 787	1 325
Dividends received	253	198
Investment surplus	4 161	1 271
Deferred capital gains tax	(627)	(144)
Less: Balance over equity-accounted earnings transferred to net investment return	2 878	532
Investment surplus	3 505	676
Capital gains tax	(627)	(144)
Net equity-accounted earnings relating to investment in Absa	909	793
Net equity-accounted earnings relating to other associated companies	60	(12)
Net equity-accounted earnings	969	781

23. DISCONTINUED OPERATIONS

Gensec Bank was refocused around the areas that are complementary and value enhancing to Sanlam's current businesses. The core activities were grouped in a new entity, Sanlam Capital Markets, which will leverage its capability to capitalise on the potential of a centralised treasury, structured products and brokerage capability to serve the Group's clients. The balance of the activities will be disposed of on a structured basis.

The initial announcement was made in August 2003 and the discontinuance was completed with the return of the Gensec Bank banking licence on 21 June 2004. The assets that comprised discontinued operations were transferred to and are reported as part of Sanlam's capital from 1 July 2004. The returns on these assets are included in investment return from this date.

	2004 R million	2003 R million
Costs specifically attributable to the discontinuance:		
Employee termination costs	(7)	(89)
Losses on disposal of assets and settlement of liabilities	(4)	(4)
Onerous contracts	(9)	(15)
Costs attributable to discontinuance before tax	(20)	(108)
Income tax relating to costs	2	31
Net discontinuance costs	(18)	(77)

The amounts of revenue, expenses and income tax from ordinary activities attributable to the discontinued operations for the six months ended 30 June 2004 and previous financial periods are disclosed separately in the segmental income statement on page 218.

		2004 R million	2003 R million
24. EARNINGS PER SHARE			
For basic earnings per share the weighted average number of ordinary shares is adjusted for the treasury shares held by subsidiaries. Basic earnings per share is calculated by dividing earnings by the adjusted weighted average number of shares in issue.			
For diluted earnings per share the weighted average number of ordinary shares is adjusted for the shares not yet issued under the Sanlam Share Incentive Scheme, treasury shares held by subsidiaries and the conversion of deferred shares. Diluted earnings per share is calculated by dividing earnings by the adjusted weighted average number of shares in issue.			
Net result from operations		1 968	1 402
Core earnings		3 340	2 641
Headline earnings		3 185	2 351
Adjusted headline earnings based on the long-term rate of return		4 141	3 291
Attributable earnings		3 283	1 883
Number of ordinary shares in issue at beginning of period	million	2 654,6	2 654,6
Add: Weighted number of shares issued	million	84,8	–
Less: Weighted Sanlam shares held by subsidiaries	million	(41,1)	(44,1)
Adjusted weighted average number of shares for basic earnings per share	million	2 698,3	2 610,5
Add: Weighted conversion of deferred shares	million	3,0	–
Add: Total number of shares under option (see note 8)	million	132,1	157,8
Less: Number of shares (under option) that would have been issued at fair value	million	(102,1)	(133,8)
Adjusted weighted average number of shares for diluted earnings per share	million	2 731,3	2 634,5
Basic earnings per share			
Net result from operations	cents	72,9	53,7
Core earnings	cents	123,8	101,2
Headline earnings	cents	118,0	90,1
Adjusted headline earnings based on the long-term rate of return	cents	153,5	126,1
Attributable earnings	cents	121,7	72,1
Diluted earnings per share			
Net result from operations	cents	72,1	53,2
Core earnings	cents	122,3	100,2
Headline earnings	cents	116,6	89,2
Adjusted headline earnings based on the long-term rate of return	cents	151,6	124,9
Attributable earnings	cents	120,2	71,5

25. DIVIDENDS

A dividend of 50 cents per share (2003: 40 cents per share) was declared in March 2005 in respect of the 2004 earnings. The secondary tax on companies (STC) liability in respect of the dividend is dependent on the STC credits that will be available at the end of the dividend cycle.

	2004 R million	2003 R million
26. LONG-TERM RATE OF RETURN ADJUSTED HEADLINE EARNINGS		
Adjusted headline earnings based on the long-term rate of return (LTRR)		
Net result from operations	1 968	1 402
LTRR investment return	2 173	1 889
Net equity-accounted earnings	969	781
Investment return after taxation	1 204	1 108
Adjusted headline earnings based on the LTRR	4 141	3 291
Reconciliation of headline earnings and adjusted headline earnings based on the LTRR		
Headline earnings per income statement	3 185	2 351
Investment surpluses per income statement	700	134
Investment surpluses taken directly to equity	3 588	693
Net LTRR adjustment	(3 332)	113
Adjusted headline earnings based on the LTRR	4 141	3 291
Analysis of net LTRR adjustment		
Investment return	(4 224)	(61)
Equities	(750)	168
Surplus on investment in associated company	(3 505)	(676)
Interest-bearing investments	47	461
Properties	(16)	(14)
Tax	618	163
Minority shareholders' interest	274	11
Net LTRR adjustment	(3 332)	113
A comparison of the aggregate actual and calculated longer-term returns (after tax and minorities) since 1 January 1999 is set out below:		
Actual returns	11 245	5 740
Longer-term returns	(11 590)	(9 417)
Deficit aggregate short-term fluctuations	(345)	(3 677)
A reconciliation of the investments included in the calculation of the adjusted headline earnings based on the LTRR is as follows:		
Investments per shareholders' funds balance sheet (refer page 220)	32 565	26 010
Less: Investment in associated companies	(9 763)	(5 391)
Investment in joint ventures	(165)	(309)
Investments held in respect of term finance	(3 809)	(4 454)
Investments held in respect of capital market activity	(62)	(1 568)
Investments from discontinued operations, matched by liabilities	(905)	–
Other	(168)	(289)
LTRR investments	17 693	13 999
Analysis of LTRR investments		
Equities	10 589	9 101
Securities	4 107	2 880
Cash, deposits and similar securities	2 376	1 395
Properties	621	623
LTRR investments	17 693	13 999
LTRR yield applied to balanced portfolio	11%	12%

	2004 R million	2003 R million
27. PAYMENTS TO CLIENTS		
Analysis per product		
(Refer to page 224 for analysis per Sanlam cluster)		
Insurance business – policy benefits paid	25 894	26 036
Long-term insurance – underwriting (note 17)	2 568	2 502
– other (note 10.4)	18 929	19 159
Short-term insurance (note 17)	4 397	4 375
Retirement fund terminations (note 10.1)	4 020	3 475
Other payments (off-balance sheet activities)	24 226	14 416
Collective investment scheme repurchases	10 354	6 941
Segregated funds withdrawn	10 133	5 041
Linked products withdrawn	3 739	2 434
Total payments to clients	54 140	43 927
Payments to clients are disclosed net of the following reinsurance claims:		
Long-term insurance	130	117
Short-term insurance	617	1 037

28. FINANCIAL INSTRUMENTS

Derivative financial instruments

In connection with its current operating activities, the Group is exposed to various financial risks, such as foreign currency risk, interest rate risk, credit risk, market risk and liquidity risk. For the management of the shareholders' funds' financial risks, the Group uses derivative financial instruments as follows:

- Sanlam Capital Markets, in its trading activities, acts as a dealer in derivative instruments to satisfy the risk management needs of its clients and assume trading positions based on its market expectations, to benefit from price differentials between instruments and markets.
- Sanlam Life and Santam primarily use derivative financial instruments for the preservation of their capital bases.

2004

R million	Residual term to contractual maturity				Analysed by use		
	< 1 year	1–5 years	> 5 years	Total notional amounts	Trading	Asset liability manage-ment	Total fair value of amounts
Interest rate products over-the-counter							
Swap contracts	30 356	17 810	26 031	74 197	74 197	–	5
Purchased options	–	–	–	–	–	–	–
Total interest rate products	30 356	17 810	26 031	74 197	74 197	–	5
Market risk products							
Cliquet structures	428	723	–	1 151	611	540	(56)
Futures	–	–	–	–	–	–	–
Collar structures	732	–	–	732	–	732	(146)
Forward purchase of shares							
Local	128	–	–	128	–	128	(78)
International	–	–	–	–	–	–	–
Fence structures							
Local	1 163	624	–	1 787	624	1 163	(94)
International	–	–	–	–	–	–	–
Total market risk products	2 451	1 347	–	3 798	1 235	2 563	(374)
Foreign exchange products over-the-counter							
Spot and forward contracts (purchases)	49	169	–	218	218	–	(50)
Spot and forward contracts (selling)	(49)	(169)	–	(218)	(218)	–	28
Total foreign exchange products	–	–	–	–	–	–	(22)
Other derivative products	1 592	265	10	1 867	1 567	300	256

28. FINANCIAL INSTRUMENTS *(continued)*

2003

R million	Residual term to contractual maturity < 1 year	1–5 years	> 5 years	Total notional amounts	Analysed by use Trading	Asset liability manage-ment	Total fair value of amounts
Interest rate products over-the-counter							
Swap contracts	28 536	48 634	23 729	100 899	100 899	–	100
Purchased options	20	–	–	20	20	–	–
Total interest rate products	**28 556**	**48 634**	**23 729**	**100 919**	**100 919**	**–**	**100**
Market risk products							
Cliquet structures	–	956	–	956	–	956	159
Futures	–	14	–	14	–	14	–
Collar structures	–	419	–	419	–	419	(80)
Forward purchase of shares							
Local	–	–	–	–	–	–	–
International	–	102	–	102	–	102	52
Fence structures							
Local	805	–	–	805	–	805	–
International	249	–	–	249	–	249	–
Total market risk products	**1 054**	**1 491**	**–**	**2 545**	**–**	**2 545**	**131**
Foreign exchange products over-the-counter							
Spot and forward contracts (purchases)	1 302	225	7	1 534	1 534	–	8
Spot and forward contracts (selling)	(623)	–	–	(623)	(623)	–	(116)
Total foreign exchange products	**679**	**225**	**7**	**911**	**911**	**–**	**(108)**

28. FINANCIAL INSTRUMENTS *(continued)*

Securities lending

The Sanlam group conducts securities-lending activities in respect of some of its listed equities and bonds. The exposure to these activities was approximately 12% of the shareholders' funds of Sanlam Life Insurance Limited and collateral security and guarantees of between 105% and 150% of the value of the loaned securities are held.

Market risk – interest and equities

Sanlam's operations are exposed to market risk. Market 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 that is 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. Shareholders' investments in listed subsidiaries are reflected at net asset value based on the market value of the underlying investments. Investments subject to equity risk are analysed in the balance sheet and in note 4.

The acquisition of policyholders' assets is based on the contract entered into and the preferences expressed by the policyholder. Within these parameters, investments are managed with the aim of maximising policyholder returns while limiting risk to acceptable levels within the framework of statutory requirements. The focus of risk measurement and management is to ensure that the potential risks inherent in an investment are reasonable for the future potential reward. Comprehensive measures and limits are in place to control the exposure to market risk of the investments of Sanlam. Continuous monitoring takes place to ensure that appropriate assets are held where the liabilities are dependent upon the performance of specific portfolios of assets and that a suitable match of assets exists for all non-market-related liabilities.

Such risk measurements are calculated through the application of various statistical techniques - Value at Risk ("VaR") and position limits are supplemented with stress testing and scenario analysis. Sanlam believes that statistical models alone do not provide a reliable method of monitoring and controlling market risk. While VaR models are relatively sophisticated, the quantitative market risk information generated is limited by the assumptions and parameters established in creating the related models. Therefore, such models are tools and do not substitute for the experience or judgement of senior management but are used as input in the decision making process.

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 Group 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.

The initiation of transactions and their administration is conducted on the basis of 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 Group's securities. To ensure validity, all transactions are confirmed with counter-parties independently from the initial executors.

Sanlam has a risk-based internal audit approach, in terms of which priority is given to the audit of higher risk areas, as identified in the planning phase of the audit process. The internal control systems and procedures are subject to regular internal audit reviews.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate in rand owing to changes in foreign exchange rates. The Group's exposure to currency risk is mainly in respect of foreign investments made on behalf of policyholders and shareholders for the purpose of seeking desirable international diversification of investments. Exposure to different foreign currencies is benchmarked against the currency composition of the Morgan Stanley Capital International World Equity Index and the JP Morgan Government Bond Index.

Property risk

Property risk is the risk that the value of the investment properties will fluctuate as a result of changes in the environment. Property investments are made on behalf of policyholders, shareholders and other investment clients and are all reflected at market value. Diversification in property type, geographical location and tenant exposure are all used to reduce this risk.

Credit risk

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

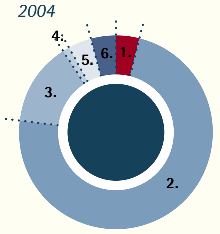
28. FINANCIAL INSTRUMENTS *(continued)*

Credit risk *(continued)*

The Sanlam 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 and loans are spread among a number of major industries, customers and geographic areas. Amounts receivable in terms of long-term insurance business are secured by the underlying value of the unpaid policy benefits in terms of the policy contract. General insurance premiums outstanding for more than 60 days are not accounted for in premiums. An appropriate level of provision is maintained. Exposure to outside financial institutions concerning deposits and similar transactions is monitored against approved limits.

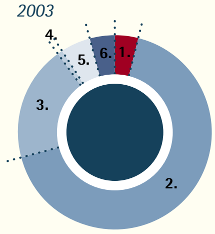
The value of the short-term fixed interest stock at 31 December 2004 was R18 756 million (2003: R15 227 million), consisting mostly of promissory notes of R4 212 million (2003: R7 506 million), deposits of R7 591 million (2003: R1 897 million) and loans of R3 248 million (2003: R3 070 million). For short-term fixed instruments the credit risk is very important. The table below summarises the credit exposure and the credit rating of the South African institutions.

CREDIT EXPOSURE OF RSA SHORT-TERM FIXED INTEREST STOCK
2004



1. AAA	4%
2. AA	73%
3. A	14%
4. BBB	1%
5. Lower	4%
6. Not rated	4%

CREDIT EXPOSURE OF RSA SHORT-TERM FIXED INTEREST STOCK
2003



1. AAA	4%
2. AA	67%
3. A	19%
4. BBB	1%
5. Lower	5%
6. Not rated	4%

Liquidity risk

Liquidity risk is the risk that the Group 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.

All policyholder funds are invested in appropriate assets to meet the reasonable benefit expectations of policyholders, which includes the expectation that funds will be available to pay out benefits as required by the policy contract. Almost 100% of term finance liabilities are backed by appropriate assets with the same maturity profile. Details of term finance liabilities are provided in note 11 and current liabilities in note 12. The Group has significant liquid resources and substantial unutilised banking facilities.

Underwriting risk

Underwriting risk is the risk that the actual exposure to mortality, morbidity and medical risks in respect of policyholder benefits will exceed prudent exposure. The statutory actuary of Sanlam Life Insurance Limited reports annually on the financial soundness of the premium rates in use and the profitability of the business taking into consideration the reasonable benefit expectation of policyholders. All new rate tables are approved and authorised by the statutory actuary prior to being issued. Regular investigations into mortality and morbidity experience are conducted. Catastrophe insurance is in place for single-event disasters. All applications for risk cover in excess of specified limits are reviewed by experienced underwriters and evaluated against established standards. Specific testing for HIV/Aids

specified monetary or impairment limits are reinsured.

Claims risk

Claims risk is represented by the fact that Sanlam may incur inordinate mortality and morbidity losses on any group of policies. Pro-active training of client service staff takes place to ensure that fraudulent claims are identified and investigated timeously. The legitimacy of claims is verified by internal, financial and operating controls that are designed to contain and monitor claims risks. The forensic investigation team also advises on improvements to internal control systems.

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 Sanlam's clients and counterparties, including contractual provisions intended to reduce credit and product exposure by providing for the netting of mutual obligations.

During the development stage of any new product and for material transactions entered into by the Group, the legal resources of the Group monitor the drafting of the contract document to ensure that rights and obligations of all parties are clearly set out. Sanlam seeks to minimise uncertainties through continuous consultation with internal and external legal advisers, to understand the nature of risks and to ensure that transactions are appropriately structured and documented.

28. FINANCIAL INSTRUMENTS *(continued)*

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. Statutory capital adequacy requirements for Sanlam Life Insurance Limited were covered 3,7 times by the Sanlam Life Insurance Limited shareholders' fund at 31 December 2004 (2003: 2,6 times) and are determined according to generally accepted actuarial principles in terms of the guidelines issued by the Actuarial Society of South Africa.

29. RETIREMENT BENEFITS FOR EMPLOYEES

Retirement provision

The Sanlam group provides for the retirement benefits of full-time employees and for certain part-time employees by means of defined benefit and defined contribution pension and provident funds. These funds are governed by the Pension Funds Act.

At 31 December 2004 93% of employees were covered by defined contribution plans and 7% by defined benefit funds.

Defined contribution funds

There are separate defined contribution funds for advisers, full-time and part-time office staff. The Sanlam group contributed R136 million to these funds during 2004 (2003: R149 million).

Defined benefit funds

The Sanlam group has four defined benefit funds. These funds relate to the Sanlam office staff (that did not elect to transfer to the defined contribution fund), Sanlam Namibia office staff, Merchant Investors Assurance office staff and Sanlam Financial Services UK office staff (BGJ Pension Scheme). All funds are closed for new entrants. The Sanlam group contributed R12 million during 2004 to these funds (2003: R9 million). These contributions relate to current service costs and are included in administration costs.

All of the above funds are valued annually. According to the latest valuation in accordance with AC116 all of the above funds were in a materially sound financial position.

Principal actuarial assumptions were as follows:

	Sanlam Office Personnel	BGJ Pension Scheme	Merchant Investors Assurance	Sanlam Namibia Office Personnel
Latest valuation date	31 December 2004	31 December 2004	31 July 2004	31 December 2003
Pre-retirement discount rate	10% per annum	5% per annum	7% per annum	12% per annum
Post-retirement discount rate	10% per annum	5% per annum	6% per annum	12% per annum
Future salary increases	7,5% per annum	4% per annum	5% per annum	10% per annum
Expected return on assets	10% per annum	5% per annum	7% per annum	12% per annum

Based on reasonable actuarial assumptions about future experience, the employers' contribution, as a fairly constant percentage of the remuneration of the members of the funds, should be sufficient to meet the promised benefits of the funds.

Medical aid funds

The actuarially determined present value of medical aid obligations for disabled members and certain pensioners is fully provided for at year-end. The Group has no further unprovided post-retirement medical aid obligations for current or retired employees.

Principal actuarial assumptions at 31 December 2004 were as follows:

	Sanlam Ltd
Pre-retirement discount rate	10%
Returns for All Bond Index (ALBI)	9,76%
Expected increase in medical aid contributions	10%

29. RETIREMENT BENEFITS FOR EMPLOYEES *(continued)*

	Defined benefit plans		Post-employment medical aid benefits	
	2004 R million	2003 R million	2004 R million	2003 R million
Amounts recognised in the balance sheet				
Present value of funded obligations	680	596	–	–
Actuarial value of plan assets	(951)	(688)	–	–
Net present value of funded obligations	(271)	(92)	–	–
Present value of unfunded obligation	–	–	44	45
Net (assets)/liabilities	(271)	(92)	44	45
Unrecognised actuarial gains	271	92	–	–
Net liability included on balance sheet	–	–	44	45
Movements in the net liability recognised in the balance sheet are as follows:				
Net liability at beginning of year	–	–	45	84
Net expense recognised in the income statement	12	9	8	(23)
Contributions	(12)	(9)	(9)	(16)
Net liability at end of year	–	–	44	45
Net expenses recognised in the income statement				
Current service cost	12	9		
Total included in "staff costs"	12	9		
Actual return on plan assets:				
Sanlam Office Personnel	19,3%	16,0%		
BGJ Pension Scheme	6,5%	3,1%		
Merchant Investors Assurance	6,4%			
Sanlam Namibia Office Personnel	16,8%			

The above value of fund assets includes an investment of R7 million in Sanlam shares.

The actuarial surplus is currently not recognised as an asset by the Group, as the extent of the surplus available to the company cannot be determined with certainty.

30. BORROWING POWERS

In terms of the articles of association of Sanlam Limited, the directors may at their discretion raise or borrow money for the purpose of the business of the company without limitation.

Material borrowings of the Sanlam Limited group are disclosed in note 11.

	2004 R million	2003 R million
31. COMMITMENTS AND CONTINGENCIES		
Commitment in respect of private equity investments	123	155
Future operating lease commitments:		
Lease rentals due within one year	130	123
Lease rentals due within two to five years	195	252
Lease rentals due within more than five years	128	144
Total operating lease commitments	453	519

As part of the disposal of Tasc Administration to JP Morgan during 2004, Sanlam agreed to outsource investment administration services to JP Morgan for a period of ten years. The fees payable under the agreement is based on the market value of the investments under administration.

The South African Revenue Services (SARS) had issued revised income tax assessments totalling R240 million in normal income tax in respect of the 1997, 1998 and 1999 tax years of a subsidiary of Genbel Securities Limited (Gensec). In terms of the revised assessments certain surpluses arising from the disposal of certain assets are subjected to full income tax as SARS contends that such surpluses are not of a capital nature. Gensec's objections that these amounts are in fact of a capital nature have been partially allowed and thereby reducing the normal income tax to R187 million. We are awaiting the new revised assessments. Penalties and interest were imposed in addition to the normal income tax payable. Gensec has appealed against the disallowance of the remainder of the objection and intends to challenge these assessments should the ongoing discussions with SARS on the merits of the case not be successful.

Sanlam embarked on a restructuring of the Group of companies during 2002, the result of which being that the capital and reserve funds of Gensec were reduced. Gensec was registered as the controlling Company of Gensec Bank Limited (Gensec Bank) in terms of the Banks Act and required a guarantee to maintain its allocated capital and reserve funds in order to conduct and grow the business of Gensec and Gensec Bank (renamed to Sanlam Capital Markets) in a competitive manner. An agreement was entered into, in terms of which the boards of the companies approved that an amount of R2 billion be assigned as capital to Gensec and that Sanlam Limited will provide a capital maintenance guarantee of R5 billion. Gensec has in turn provided an unconditional guarantee in favour of the creditors of Gensec Bank. The guarantee is currently under review and is expected to be replaced during 2005.

Two medical aid schemes formerly administered by Sanlam Health have sued it, claiming that the Court should issue orders that they are entitled to share in profits accumulated by Sanlam Health during the period May 1975 to December 1997 and accounting, debatement and payment in respect thereof. The claims are defended by Sanlam Health on the basis that the plaintiffs are not entitled to such orders, that accounting has been made in accordance with the obligations of Sanlam Health and that prescription has taken place.

Gensec has subordinated its investment in the joint venture, Safair Lease Finance (Proprietary) Limited, of R140 million (2003: R309 million) to third parties' liabilities.

There are no other material commitments or contingencies.

32. RELATED PARTIES

Major shareholders

Sanlam Limited is the ultimate holding company in the Group.

By virtue of its shareholding in Sanlam Limited, Ubuntu-Botho Investments is entitled to appoint three directors to the Sanlam board. The Group does not enter into transactions with Ubuntu-Botho Investments in the normal course of business.

No other Sanlam shareholders has a significant influence and thus no other shareholder is a related party.
The shares are widely held by public and non-public shareholders.

Details of transactions between the policyholders of Sanlam Life Insurance Limited and the shareholders' funds of the Sanlam Limited group are disclosed in note 10.

32. RELATED PARTIES *(continued)*

Transactions with directors

Remuneration is paid to directors in the form of fees to non-executive directors and remuneration to executive directors of the Company. All directors of Sanlam Limited have notified that they did not have a material interest in any contract of significance with the Company or any of its subsidiaries, which could have given rise to a conflict of interest during the year. Details relating to directors' emoluments are included in note 18 and their shareholdings and share options granted in the Company are disclosed as part of the corporate governance report elsewhere in the annual report.

Transactions with entities in the Group

During the year the Company and its subsidiaries in the ordinary course of business entered into various transactions with other Group companies, associated companies and other stakeholders. These transactions occurred at arm's length.

The Company advanced, repaid and received loans from two other entities in the Group during the current and previous years. These loans have been eliminated on consolidation.

Details of investments in associated companies are disclosed in note 4 and details of investments in subsidiaries are disclosed on page 214.

Policy administration

Certain companies in the Group carry out third party policy and other administration activities for other related parties in the Group. These transactions are entered into in the normal course of business, under terms that are no more favourable than those arranged with third parties.

	2004 R million	2003 R million
33. NOTES TO THE CASH FLOW STATEMENT		
33.1 Cash generated from operations		
Result from operations before tax per income statement	3 520	2 405
Gross discontinuance costs	(20)	(108)
Non-cash items	104	167
Depreciation	71	79
Bad debts written off and provided for	33	88
Items disclosed separately	(1 147)	(1 376)
Dividends received	(178)	(365)
Interest received	(2 271)	(3 088)
Interest paid and term finance costs	1 358	2 096
Equity-accounted earnings	(56)	(19)
Net purchase of fixed assets	(42)	(61)
Net disposal of owner-occupied properties	7	—
Cash generated from operations before working capital changes	2 422	1 027
33.2 Interest received		
Operating activities		
Interest receivable at the beginning of the year	114	182
Interest income included in income statement (note 16)	2 271	3 088
Interest receivable at the end of the year	(166)	(114)
Interest received from operating activities	2 219	3 156
Investment activities		
Interest receivable at the beginning of the year	97	34
Interest income included in income statement (note 21)	370	326
Interest receivable at the end of the year	(122)	(97)
Interest received from investment activities	345	263

	2004 R million	2003 R million
33. NOTES TO THE CASH FLOW STATEMENT *(continued)*		
33.3 Dividends received		
Operating activities		
Dividends receivable at the beginning of the year	8	–
Dividend income included in income statement (note 16)	178	365
Dividends receivable at the end of the year	(1)	(8)
Dividends received from operating activities	185	357
Investment activities		
Dividends receivable at the beginning of the year	–	1
Dividend income included in income statement (note 21)	323	312
Dividend income attributable to investment in associated company (note 22)	253	198
Dividends receivable at the end of the year	(5)	–
Dividends received from investment activities	571	511
33.4 Taxation paid		
Taxation payable at the beginning of the year	(927)	(726)
Taxation expense included in income statement (excluding tax on equity-accounted earnings) (note 20)	(1 083)	(880)
Taxation expense included in statement of changes in equity (note 20)	(865)	(289)
Movement in net deferred tax liability	627	252
Total movement per balance sheet	632	234
Less: (disposal)/acquisition of subsidiaries (notes 33.7 and 33.8)	(5)	18
Taxation payable at the end of the year	1 187	927
Taxation paid	(1 061)	(716)
33.5 Dividends paid		
Unclaimed dividends at the beginning of the year	(78)	(57)
Dividends paid included in statement of changes in equity	(1 082)	(972)
Unclaimed dividends at the end of the year	98	78
Dividends paid	(1 062)	(951)
33.6 Rental income received		
Rental income receivable at the beginning of the year	43	–
Rental income included in income statement (note 21)	32	61
Rental income receivable at the end of the year	(9)	(43)
Rental income received	66	18
33.7 Acquisition of subsidiaries		
During the year, various subsidiaries were acquired within the Group. The fair value of assets acquired is as follows:		
Fixed assets	3	15
Investments	110	242
Deferred tax	–	18
Trade and other receivables	68	38
Short-term insurance technical assets	–	54
Cash, deposits and similar securities	57	461
Current liabilities	(163)	(70)
Short-term insurance technical provisions	–	(398)
Goodwill	421	298
Minority shareholders' interest	(88)	(53)
Total purchase price	408	605
Less: Net asset value contributed	(4)	–
Cash, deposits and similar securities acquired	(57)	(461)
Cash component of acquisition of subsidiaries	347	144

	2004 R million	2003 R million
33. NOTES TO THE CASH FLOW STATEMENT *(continued)*		
33.8 Disposal of subsidiaries		
During the year, various subsidiaries were disposed of within the Group. The fair value of assets disposed of were as follows:		
Fixed assets	10	–
Investments	(12)	–
Deferred tax	5	–
Trade and other receivables	22	–
Cash, deposits and similar securities	21	–
Current liabilities	(31)	–
Goodwill	22	–
Foreign currency translation balance	(1)	–
Profit on sale of subsidiaries	58	–
Total selling price	94	–
Less: Net asset value received	(5)	–
Cash, deposits and similar securities disposed of	(21)	–
Cash component of disposal of subsidiaries	68	–
33.9 Increase in policyholders' investments		
Premium income (note 10.1)	22 256	20 174
Policy benefits (note 10.1)	(18 929)	(19 159)
Retirement fund terminations (note 10.1)	(4 020)	(3 475)
Transfer to segregated assets (note 10.1)	(297)	(1 815)
Payments to shareholders (note 10.1)	(7 124)	(6 697)
Cash utilised in policyholder activities	(8 114)	(10 972)
Taxation (note 10.1)	(538)	(442)
Interest income (note 10.3)	4 403	4 757
Dividend income (note 10.3)	2 231	2 112
Other investment income (note 10.3)	1 119	1 071
Net realised and unrealised investment surpluses (note 10.3)	16 139	8 338
Liabilities acquired with acquisition of subsidiaries (note 10.1)	14 364	–
Foreign currency translation difference (note 10.1)	(1 457)	–
Increase in policyholders' investments	28 147	4 864
33.10 Cash, deposits and similar securities		
Cash, deposits and similar securities	11 149	11 808
Bank overdrafts	(196)	(39)
Total cash, deposits and similar securities	10 953	11 769

34. CHANGES IN PRESENTATION

Comparative figures for 2003 have been restated as follows:

	Restated R million	Previously reported R million
34.1 Changes in reporting structure		
Result from operations		
The results of Innofin have been transferred from the Investment cluster to the Life Insurance cluster. Results from operations have accordingly been restated as follows:		
Investment cluster	270	292
Life Insurance cluster	1 467	1 445
Segregated funds		
As Innofin's segregated assets are also reported as part of the Life Insurance cluster, assets reported twice are eliminated.		
Segregated funds not included on balance sheet	83 181	86 512

34. CHANGES IN PRESENTATION *(continued)*

		Restated R million	Previously reported R million
34.2	**Deferred tax**		
	The presentation of deferred tax in respect of the policyholders' funds has been amended (refer Basis of Presentation and Accounting Policies). Comparative figures have been restated to transfer the applicable deferred tax balances from long-term policy liabilities to a deferred tax liability.		
	Deferred tax – Capital gains tax (note 5)		
	Balance on 1 January 2003	(115)	(1)
	Unrealised gains on policyholders' investments	(248)	–
	Balance on 31 December 2003	(593)	(231)
	Long-term policy liabilities (note 10.1)		
	Taxation	(442)	(194)
	Long-term policy liabilities	134 079	134 441
	Insurance contracts	94 556	94 800
	Investment contracts	39 523	39 641
34.3	**Cash flow statement**		
	Comparative figures for the cash flow statement have been restated to adjust for the following:		
	Cash flow from operating and investment activities		
	Movements in working capital balances relating to taxation and dividends paid were previously included in the 'Working capital changes' line item. These movements were reallocated to the respective line items. In addition, all taxation paid by the shareholders' fund are reflected as operating activities whereas a portion was formerly reflected as investment activities.		
	Working capital changes	(360)	(31)
	Taxation – operating activities	(716)	(693)
	Taxation – investment activities	–	(331)
	Dividends paid	(951)	(972)
	Cash flow from policyholders' funds		
	The impact of the changes in deferred tax presentation (refer note 34.2)		
	Increase in policyholders' investments – total	4 864	5 112
	Increase in policyholders' investments – taxation	(442)	(194)
	Increase in policy liabilities	(4 864)	(5 112)
	Cash, deposits and similar securities		
	Previously bank overdraft balances were included as part of accounts payable, as it was not material. From 2004 it is disclosed separately and therefore included in the cash, deposits and similar securities balance on the cash flow statement.		
	Cash, deposits and similar securities at end of year	11 769	11 808
34.4	**Capital adequacy risk (note 28)**		
	The calculation of times Capital Adequacy Requirements (CAR) covered by the Sanlam Life Insurance Limited shareholders' fund has been amended. Up to 31 December 2003 the statutory capital was used in the calculation. From the 2004 financial year, capital that qualify for prudential capital purposes is used. The 2003 comparative figures have been amended as follows:		
	CAR covered by Sanlam Life Insurance Limited shareholders' fund (times)	2,6	2,7

STATEMENT OF ACTUARIAL VALUES OF ASSETS AND LIABILITIES OF SANLAM LIFE INSURANCE LIMITED GROUP

at 31 December 2004

	Notes	2004 R million	2003 R million
Assets			
Fair value of assets	1	186 375	164 625
Less: Liabilities		160 330	144 889
Actuarial value of policy liabilities		147 995	134 079
– Investment contracts		43 213	39 523
– Insurance contracts		104 782	94 556
Long-term and current liabilities		12 335	10 810
Minority shareholders' interest		(62)	–
Excess of assets over liabilities for financial reporting	2	25 983	19 736
Adjustment for prudential regulatory purposes	3	(2 039)	(1 146)
Excess of assets over liabilities for prudential regulatory purposes		23 944	18 590
Analysis of movement in excess of assets over liabilities (after minorities)			
Result from operations before tax	4	1 636	1 448
Investment return on excess of assets over liabilities		7 317	3 427
Investment income		829	843
Realised and unrealised investment surpluses		6 488	2 584
Financial assistance provided to policyholders' funds	5	–	(290)
Donation of Sanlam Limited shares to Ubuntu-Botho Community Development Trust		(432)	–
Minority shareholders' interest		(3)	–
Taxation		(1 200)	(800)
Income tax		(537)	(500)
Capital gains tax		(763)	(300)
Deferred secondary tax on companies		100	–
Dividends paid		(1 071)	(1 050)
Movement in excess of assets over liabilities for financial reporting	6	6 247	2 735
Capital adequacy for Sanlam Life Insurance Limited	7		
Capital adequacy requirements (CAR) before management actions		11 150	16 150
Management actions assumed	8	(4 600)	(8 975)
CAR after management actions assumed		6 550	7 175
Times CAR covered by excess of assets over liabilities		3,7	2,6

	2004 R million	2003 R million

1. SANLAM LIFE INSURANCE LIMITED GROUP

Information presented is in respect of the Sanlam Life Insurance Limited group, unless noted otherwise, and includes the actuarial values of assets and liabilities relating to its long-term insurance subsidiaries. Merchant Investors Assurance Company Limited (MIA) has been excluded as it is a subsidiary of Sanlam Limited and is registered in the United Kingdom. Salient figures for MIA are provided in note 13.

The valuation bases and methodology used to calculate the policy liabilities and the corresponding shareholder profit entitlement are set out on pages 164 to 167.

2. EXCESS OF ASSETS OVER LIABILITIES

Refer to page 221 for an analysis of the Sanlam Life Insurance Limited group shareholders' fund at fair value, with Sanlam Investment Management (Pty) Limited not consolidated, but reflected at fair value.

3. ADJUSTMENT FOR PRUDENTIAL REGULATORY PURPOSES

	2004 R million	2003 R million
Total adjustment	(2 039)	(1 146)
Adjustment for Group undertakings – Sanlam Investment Management	(1 299)	(1 016)
– Santam	(502)	–
Capital requirements of life insurance subsidiaries, adjusted for minority interests	(138)	(130)
Inadmissible asset	(100)	–

The adjustment for listed group undertakings is being phased in, in accordance with the Long-term Insurance Act. A proportion of the interest in a listed group undertaking is taken into account at fair value and the balance at net asset value less the capital requirement, where applicable, for the group undertaking. The proportion at fair value varies as follows, subject to a maximum of the interest in the group undertaking:

Until 31 December 2003:	60%
From 1 January 2004 to 31 December 2004:	40%
From 1 January 2005:	20%

The inadmissible asset consists of a deferred tax asset in respect of unused secondary tax on companies credits.

4. RESULT FROM OPERATIONS

A number of changes were made in 2004 to the valuation methodology and assumptions, *inter alia* with regard to:

- Strengthening the valuation basis for non-participating annuities by increasing the allowance for credit risk;
- For funeral-type business the liability per policy was made subject to a minimum of nil; and
- Expense, risk and decrement assumptions were aligned with the latest experience.

The changes in the valuation methodology and assumptions resulted in a reduction of R103 million in the result from operations for 2004.

The result from operations reconciles as follows with the Sanlam Life segmental result from operations before tax:

	2004 R million	2003 R million
Sanlam Life Insurance Limited group statutory result from operations	1 636	1 448
Sanlam Life segmental result from operations before tax (page 218)	1 768	1 467
Included in result from operations of other business clusters	(47)	3
Result from operations of other Group subsidiaries included in Sanlam Life segmental result from operations	(85)	(22)

5. FINANCIAL ASSISTANCE PROVIDED TO POLICYHOLDERS

In 2003 a prudent valuation of the financial position of the Participating Annuity Portfolio in terms of prevailing actuarial guidelines, indicated the need to bolster the funding level of the portfolio by an additional R190 million. In addition, it was decided during 2003 to support the Monthly Bonus Fund with R100 million in view of this portfolio's relatively low funding level at the time. Full provision was made for this assistance against the investment return of the shareholders' fund. During 2004 the position of the Monthly Bonus Fund improved to such an extent that support was no longer required and it was decided to utilise the R100 million to increase the support for the Participating Annuity Portfolio to R443 million (2003: R343 million) in total. The possible repayment of the support will be determined by the future investment performance of the underlying assets. It will be reviewed on a regular basis, but at present any repayment does not seem likely.

	2004 R million	2003 R million
6. MOVEMENT IN EXCESS ASSETS		
The change in the excess assets for the Sanlam Life Insurance Limited group can be reconciled to the attributable earnings per the segmental income statement on page 218, as follows:		
Movement in excess assets for the Sanlam Life Insurance Limited group	6 247	2 735
Attributable earnings of Sanlam Life cluster	2 096	1 691
Included in attributable earnings of other business clusters	46	(18)
Attributable earnings of other Group subsidiaries included in Sanlam Life segmental attributable earnings	(36)	(22)
Net unrealised investment surpluses taken directly to equity	5 212	2 134
Dividends paid	(1 071)	(1 050)
7. CAPITAL ADEQUACY		
Figures are based on the excess of assets over liabilities for prudential regulatory purposes and the capital adequacy requirements for Sanlam Life Insurance Limited. All the life insurance subsidiaries of Sanlam Life Insurance Limited were in a sound financial position with their excess assets exceeding their capital adequacy requirements.		
8. MANAGEMENT ACTIONS		
The following management actions were assumed in the calculation of the capital adequacy requirements.		
Reduction in non-vested bonuses; on average 3,0% of non-vested bonuses (2003: 4,4%)	346	594
Reduction in future bonus rates; on average 2,0% per annum below expected long-term rates, for three years (2003: 2,9%)	2 644	3 873
Capitalisation of proportion of expected future profits held as second-tier margins	321	2 040
Reduction in grossing up of the assets covering CAR	1 374	2 693
Independence credits	(85)	(225)
Total management actions	4 600	8 975

	2004 %	2003 %
9. ASSET COMPOSITION		
The assets backing the capital adequacy requirements after management actions, used for the purpose of grossing up the intermediate ordinary capital adequacy requirements (as defined in PGN 104) to determine the ordinary capital adequacy requirements, were invested as follows:		
Cash	15	9
Fixed–interest securities	20	15
Hedged equities	40	35
Properties	8	9
Equities	17	32
	100	100
10. INVESTMENT RETURN AND INFLATION ASSUMPTIONS		
Pre-tax investment returns by major asset categories and inflation assumptions were as follows:		
Fixed–interest securities	8,3	9,4
Equities and off-shore investments	10,3	11,4
Hedged equities	8,3	8,4
Properties	9,3	10,4
Cash	6,3	7,4
Future expense inflation (excluding margin)	4,3	5,4
Consumer price index inflation for premium indexation	3,3	3,9
11. DISCOUNT RATES USED IN CALCULATING PROSPECTIVE POLICY LIABILITIES		
Reversionary bonus business		
Retirement annuity business	8,5	9,4
Individual policyholder business	7,8	8,7
Individual stable bonus business		
Retirement annuity business	8,4	9,3
Individual policyholder business	7,7	8,5
Non-taxable business	9,0	9,9
Corporate policyholder business	7,4	8,2
Individual market-related business		
Retirement annuity business	8,5	9,4
Individual policyholder business	7,8	8,6
Non-taxable business	9,1	10,0
Corporate policyholder business	7,5	8,3
Participating annuity business	7,4	8,4
Non-participating annuity business*	7,6	8,6
Guarantee plans*	7,4	8,7

**The calculation of policy liabilities is based on discount rates derived from the zero-coupon yield curve. This is the average rate that produces the same result.*

	2004 R million	2003 R million
12. BONUS STABILISATION RESERVES		
No portfolio had a negative bonus stabilisation reserve which exceeded 7,5% of the relevant investment accounts at 31 December 2004.		
13. MERCHANT INVESTORS ASSURANCE COMPANY LIMITED (MIA)		
Assets		
Fair value of assets	14 409	14 362
less: liabilities	14 309	14 277
Actuarial value of policy liabilities	14 230	14 209
Long-term and current liabilities	79	68
Excess of assets over liabilities	100	85
Capital adequacy		
Capital requirement	70	67
Times capital required covered by excess of assets over liabilities	1,4	1,3

	Note	2004 R million	2003 R million
Balance sheet at 31 December 2004			
Assets			
Investment in Group companies	2	13 170	13 505
Working capital assets		1 796	748
Loans to Group companies	2	1 790	683
Accounts receivable		6	65
Total assets		14 966	14 253
Equity and liabilities			
Share capital and premium	3	4 360	3 514
Non-distributable reserves	4	9 342	9 342
Retained income		424	671
Shareholders' funds		14 126	13 527
Working capital liabilities		840	726
Loans from Group companies	2	741	648
Accounts payable		99	78
Total equity and liabilities		14 966	14 253
Income statement for the year ended 31 December 2004			
Dividends received	5	1 280	1 419
Expenditure	6	(7)	(7)
Taxation		(2)	–
Profit on sale of subsidiaries	7	60	–
Impairment of loans to Group companies		(146)	–
Impairment of investments in Group companies		(325)	(1 099)
Attributable earnings		860	313

	Note	2004 R million	2003 R million
Cash flow statement			
for the year ended 31 December 2004			
Cash flow from operating activities			
Cash (utilised in)/generated from operations	11	(73)	3
Dividends received		1 280	1 419
Dividends paid		(1 107)	(982)
Taxation paid		(2)	–
Cash flow from investment activities			
Change in investment in Group companies		–	83
Proceeds from sale of subsidiary companies		70	–
Cash flow from financing activities			
Shares issued		846	–
Increase in cash and cash equivalents		1 014	523
Net loans to Group companies – beginning of the year		35	(488)
Net loans to Group companies – end of the year		1 049	35

R million	Note	Share capital	Share premium	Non-distributable reserve	Retained income	Total
Statement of changes in equity						
for the year ended 31 December 2004						
Balance at 1 January 2003		27	3 487	9 342	1 340	14 196
Attributable earnings for the year		–	–	–	313	313
Dividends paid	8	–	–	–	(982)	(982)
Balance at 31 December 2003		27	3 487	9 342	671	13 527
Shares issued[1]		2	863	–	–	865
Costs relating to share issuance		–	(19)	–	–	(19)
Attributable earnings for the year		–	–	–	860	860
Dividends paid	8	–	–	–	(1 107)	(1 107)
Balance at 31 December 2004		29	4 331	9 342	424	14 126

[1] *The shares issued relate to the empowerment transaction with Ubuntu-Botho.*

	2004 R million	2003 R million
1. ACCOUNTING POLICIES		
The accounting policies of the Sanlam Limited group as set out on pages 157 to 164 are also applicable to Sanlam Limited except for investments in Group companies, which are reflected at cost or at a lower value if there is an impairment in value.		
2. GROUP COMPANIES		
Investment in Group companies - shares at cost less impairments	13 170	13 505
Current loans with Group companies	1 049	35
Loans to Group companies	1 790	683
Loans from Group companies	(741)	(648)
Book value of interest in Group companies	14 219	13 540
Fair value of investments in Group companies	30 400	23 370
Investments in subsidiaries	30 388	23 370
Investment in associated company	12	–

Loans to Group companies

The loans to Group companies are unsecured and not subject to any fixed terms of repayment. No interest is charged but these arrangements are subject to revision from time to time. Details regarding the principal subsidiaries of Sanlam Limited are set out on page 214.

The fair values of Group companies are determined on the following bases:

- Listed Group companies at stock exchange prices;
- Sanlam Life Insurance Limited at net asset value; and
- Other unlisted Group companies at the directors' valuation.

3. SHARE CAPITAL

Details of share capital and premium are reflected in note 8 on page 178 of the Sanlam Limited Group financial statements.

	2004 R million	2003 R million
4. NON-DISTRIBUTABLE RESERVES		
Pre-acquisition reserves arising on demutualisation of Sanlam Life Insurance Limited	9 342	9 342
5. DIVIDENDS RECEIVED		
Normal dividends		
Sanlam Life Insurance Limited	1 071	1 050
Genbel Securities Limited	124	290
Gensec Property Services (Proprietary) Limited	21	–
Sanlam Investment Holdings Limited	35	–
Other	29	79
Total dividends received	1 280	1 419

	2004 R million	2003 R million
6. EXPENDITURE INCLUDES:		
Directors' remuneration		
Total remuneration paid by Sanlam Limited to its present and previous directors:		
Present		
Directors' fees	4,8	2,9
Previous		
Directors' fees	–	1,8
Total directors' remuneration	4,8	4,7
Analysis of directors' remuneration		
Executive directors	0,3	0,4
Non-executive directors	4,5	4,3
Total directors' remuneration	4,8	4,7
Audit fees	1,6	2,1

7. PROFIT ON SALE OF SUBSIDIARIES

The profit on sale of subsidiaries relates to the sale of 100% of Tasc Administration (Pty) Ltd and the sale of 65% of Gensec Property Services (Pty) Ltd.

8. DIVIDENDS PAID

Details of dividends paid are reflected in the directors' report on page 156 and in note 25 of the Sanlam Limited group financial statements.

9. REPORT OF THE DIRECTORS

The directors' report is included on page 156 of the Sanlam Limited group financial statements.

10. COMMITMENTS AND CONTINGENCIES

As detailed in note 31 of the Sanlam Limited group financial statements, the Company provided a capital maintenance guarantee of R5 billion to Genbel Securities Limited.

Sanlam Limited also subordinated a loan of R600 million to Genbel Securities Limited in favour of creditors of Genbel Securities Limited.

11. CASH FLOW FROM OPERATIONS

	2004 R million	2003 R million
Attributable earnings	860	313
Non-cash items	265	1 099
Impairment of investments in Group companies	325	1 099
Profit on sale of subsidiaries	(60)	–
Items disclosed separately	(1 278)	(1 419)
Dividends received	(1 280)	(1 419)
Taxation paid	2	–
Decrease/(increase) in accounts receivable	59	(11)
Increase in accounts payable	21	21
Cash (utilised in)/generated from operations	(73)	3

	% Interest	Issued ordinary capital 2004 R million	Fair value of interest in subsidiaries — Shares 2004 R million	Shares 2003 R million	Loans 2004 R million	Loans 2003 R million
Long-term insurance						
Sanlam Life Insurance Limited	100	5 000	25 983	19 736	(741)	(310)
Investment and capital markets						
Genbel Securities Limited	100	253	1 517	1 894	–	87
Investment management and consulting						
Sanlam Investment Management (Pty) Limited	100	(1)	(1)	(1)	–	–
Sanlam Independent Financial Services (Pty) Limited	100	(2)	(2)	(2)	–	–
Sanlam Investment Holding Limited	100	(2)	10	(33)	–	–
Sanlam Netherlands Holdings BV[3]	100	2 309	1 341	1 289	–	–
Property management						
Gensec Property Services (Pty) Limited[4]	35	(4)	(4)	52	–	–
Investment administration						
Tasc Administration (Pty) Limited[4]	–	(4)	(4)	61	–	–
Short-term insurance						
Santam Ltd (Listed)	5	1 171	415	300	–	–
Investment companies						
Beldiv Investments (Pty) Limited	100	(2)	–	(6)	–	–
Sanlam Spec (Pty) Limited	100	(2)	55	61	1 790	257
Sanlam Investments (Pty) Limited	100	(2)	18	(18)	–	–
Sanlam Share Incentive Trust	100	(2)	(2)	–	–	–
Total		8 733	29 339	23 336	1 049	34

(1) *The interest is held indirectly by Sanlam Life Insurance Ltd.*

(2) *Issued share capital is less than R1 000.*

(3) *Incorporated in the Netherlands.*

(4) *During the year, Sanlam Limited sold 100% of Tasc Administration (Pty) Limited, and 65% of Gensec Property Services (Pty) Limited.*

A register of all subsidiary companies is available for inspection at the registered office of Sanlam Limited. All investments above are unlisted and incorporated in South Africa unless otherwise indicated.

Analysis of the Group's holding in Santam:	2004 %	2003 %
Shareholders' funds		
• Sanlam Life Insurance Limited	44,18	40,89
• Sanlam Limited	5,07	5,14
Policyholders' funds		
• Sanlam Life Insurance Limited	3,24	7,24
	52,49	53,27

sanlam limited financial information for the shareholders' funds ...

for the year ended 31 December 2004



Thinking ahead Sanlam

SEGMENTAL SHAREHOLDERS' FUNDS BALANCE SHEET

at 31 December 2004

(All businesses consolidated at net asset value)

R million	Life Insurance Cluster[1] 2004	Life Insurance Cluster[1] 2003	Santam 2004	Santam 2003	Sanlam Investments[2] 2004	Sanlam Investments[2] 2003
Assets						
Property and equipment	109	113	45	54	14	22
Owner-occupied properties	329	327	10	17	—	—
Goodwill	433	—	63	109	30	136
Investments	29 941	23 512	5 602	3 974	115	79
Investment properties	619	607	—	—	63	55
Equities	12 675	10 260	3 457	2 668	16	14
Associated companies	9 429	5 181	319	208	—	2
Joint ventures	20	—	—	—	4	—
Public sector stocks and loans	1 245	1 702	1 632	958	—	—
Mortgages, debentures and other loans	3 270	3 073	—	—	12	4
Cash, deposits and similar securities	2 683	2 689	194	140	20	4
Deferred tax asset	100	—	9	—	9	12
Short-term insurance technical asset	—	—	1 980	2 302	—	—
Working capital assets	6 779	5 445	4 815	4 241	741	587
Total assets	37 691	29 397	12 524	10 697	909	836
Equity and liabilities						
Shareholders' funds	26 549	19 736	2 662	1 821	504	520
Minority shareholders' interest	62	—	2 850	2 189	1	—
Term finance	4 668	4 861	—	—	62	56
Deferred tax liability	1 083	269	160	121	9	6
Short-term insurance technical asset	—	—	5 198	5 156	—	—
Working capital liabilities	5 329	4 531	1 654	1 410	333	254
Total equity and liabilities	37 691	29 397	12 524	10 697	909	836

NOTES:

[1] *Included in the 2004 Life Insurance cluster balance sheet, as part of equity investments, are the investments in Sanlam Investment Management, Santam and Sanlam, at fair values of R1 616 million, R3 613 million and R110 million respectively. The 2004 balance sheet also includes the consolidated information for Innofin and Merchant Investors Assurance, as these two businesses form part of the Life Insurance Cluster although they are not part of the Sanlam Life Insurance group (statutory). The 2003 balance sheet still excludes these two businesses, as Innofin was included in the Sanlam Investments Cluster and MIA was included as an investment within Corporate and other.*

[2] *In eland and Octane Group. The 2003 figures also include Tasc and Innofin.*

[3] *Independent Financial Services for 2004 includes Sanlam Financial Services UK consolidated, as well as investments in Gensec Property Services, Break-thru Financial Services, Bull and Bear Financial Services, Simeka Employee Benefits, Green Capital and Octogen.*

[4] *Corporate and other includes the assets of Genbel Securities and Sanlam Limited Corporate on a see-through basis. The 2003 figures include an investment in Merchant Investors Assurance. As the balances for discontinuing operations at 31 December 2004 are nil, the 2003 figures have been included within the comparatives of Corporate and other.*

[5] *Within the consolidation column the investment in subsidiaries (Santam and Sanlam Investment Management), treasury stock and capital gains tax on Santam, which are included in Sanlam Life, are reversed. The intercompany balances, other investments and term finance between companies within the Group are also consolidated.*

Sanlam Capital Markets		Independent Financial Services[3]		Corporate and Other[4]		Consolidation Entries[5]		Total	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
4	1	12	25	—	5	—	—	184	220
—	3	—	—	41	43	—	—	380	390
—	—	312	402	1 027	1 208	—	—	1 865	1 855
116	761	51	12	3 316	2 502	(6 576)	(4 830)	32 565	26 010
—	—	—	—	—	—	—	—	682	662
57	54	20	12	684	848	(6 276)	(4 830)	10 633	9 026
—	—	15	—	—	—	—	—	9 763	5 391
—	—	1	—	140	309	—	—	165	309
—	—	—	—	305	214	—	—	3 182	2 874
59	707	10	—	1 324	860	(300)	—	4 375	4 644
—	—	5	—	863	271	—	—	3 765	3 104
87	119	3	4	134	121	—	—	342	256
—	—	—	—	—	—	—	—	1 980	2 302
15 250	18 898	516	727	3 164	2 330	(4 060)	(2 147)	27 205	30 081
15 457	19 782	894	1 170	7 682	6 209	(10 636)	(6 977)	64 521	61 114
483	398	328	430	2 677	2 749	(5 561)	(3 967)	27 642	21 687
—	—	58	28	—	—	—	—	2 971	2 217
—	—	20	25	486	—	(445)	(742)	4 791	4 200
—	—	—	—	25	14	(270)	(121)	1 007	289
—	—	—	—	—	—	—	—	5 198	5 156
14 974	19 384	488	687	4 494	3 446	(4 360)	(2 147)	22 912	27 565
15 457	19 782	894	1 170	7 682	6 209	(10 636)	(6 977)	64 521	61 114

R million	Sanlam Life 2004	Sanlam Life 2003	Santam 2004	Santam 2003	Sanlam Investments 2004	Sanlam Investments 2003
Financial services income	7 317	7 119	7 922	6 960	992	752
Sales remuneration	(1 019)	(1 103)	(942)	(789)	–	–
Income after sales remuneration	6 298	6 016	6 980	6 171	992	752
Underwriting policy benefits	(2 568)	(2 502)	(4 397)	(4 375)	–	–
Administration costs	(1 962)	(1 986)	(1 214)	(1 061)	(561)	(482)
Restructuring expenses	–	(61)	–	–	–	–
Result from operations before tax	1 768	1 467	1 369	735	431	270
Tax on result from operations	(473)	(399)	(445)	(231)	(117)	(81)
Result from operations after tax	1 295	1 068	924	504	314	189
Minority shareholders' interest	(3)	(6)	(501)	(282)	(1)	–
Net result from operations	1 292	1 062	423	222	313	189
Net investment income	768	769	63	96	1	4
Investment income	835	843	225	229	1	5
Tax on investment income	(67)	(74)	(19)	(23)	–	(1)
Minority shareholders' interest	–	–	(143)	(110)	–	–
Net equity-accounted earnings	–	–	56	(12)	–	–
Equity-accounted earnings	–	–	56	(12)	–	–
Tax on equity-accounted earnings	–	–	–	–	–	–
Core earnings	2 060	1 831	542	306	314	193
Financial assistance to policyholders' funds	–	(290)	–	–	–	–
Net loss on derivatives	(140)	–	(15)	–	–	–
Headline earnings	1 920	1 541	527	306	314	193
Net realised investment surpluses	221	150	74	24	46	3
Realised investment surpluses	169	184	201	71	46	3
Tax on realised investment surpluses	52	(34)	(47)	(22)	–	–
Minority shareholders' interest	–	–	(80)	(25)	–	–
Net discontinuance costs	–	–	–	–	–	–
Impairment of investments and goodwill	–	–	(9)	–	(1)	(12)
Amortisation of goodwill	(45)	–	(14)	(17)	(15)	(15)
Attributable earnings	2 096	1 691	578	313	344	169
Ratios						
Admin ratio[1]	31,2%	33,0%	17,4%	17,2%	56,6%	64,1%
Operating margin[2]	28,1%	25,4%	19,6%	11,9%	43,4%	35,9%
Net result from operations						
Adjusted weighted average number of shares (million)						
Net result from operations (cents)	47,3	40,3	15,5	8,4	11,5	7,2

[1] *Administration costs (excluding Sanlam Life restructuring cost) as a percentage of income earned by the shareholders' funds less sales remuneration.*

[2] *Result from operations before tax (excluding Sanlam Life restructuring cost) as a percentage of income earned by the shareholders' funds less sales remuneration.*

Sanlam Capital Markets		Discontinued operations		Independent Financial Services		Corporate and Other		Total	
2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
225	234	(42)	197	585	635	80	73	17 079	15 970
—	—	—	—	—	—	—	—	(1 961)	(1 892)
225	234	(42)	197	585	635	80	73	15 118	14 078
—	—	—	—	—	—	—	—	(6 965)	(6 877)
(135)	(179)	(35)	(271)	(535)	(636)	(191)	(120)	(4 633)	(4 735)
—	—	—	—	—	—	—	—	—	(61)
90	55	(77)	(74)	50	(1)	(111)	(47)	3 520	2 405
(7)	13	(10)	(10)	(10)	(11)	30	(5)	(1 032)	(724)
83	68	(87)	(84)	40	(12)	(81)	(52)	2 488	1 681
—	—	—	—	(15)	9	—	—	(520)	(279)
83	68	(87)	(84)	25	(3)	(81)	(52)	1 968	1 402
—	—	(32)	—	1	—	(398)	(411)	403	458
—	—	(33)	—	1	—	(381)	(378)	648	699
—	—	1	—	—	—	(17)	(33)	(102)	(131)
—	—	—	—	—	—	—	—	(143)	(110)
—	—	4	—	—	—	909	793	969	781
—	—	6	—	—	—	1 236	1 037	1 298	1 025
—	—	(2)	—	—	—	(327)	(244)	(329)	(244)
83	68	(115)	(84)	26	(3)	430	330	3 340	2 641
—	—	—	—	—	—	—	—	—	(290)
—	—	—	—	—	—	—	—	(155)	—
83	68	(115)	(84)	26	(3)	430	330	3 185	2 351
—	—	—	—	8	—	351	(43)	700	134
—	—	—	—	8	—	355	(43)	779	215
—	—	—	—	—	—	(4)	—	1	(56)
—	—	—	—	—	—	—	—	(80)	(25)
—	—	(5)	(77)	—	—	(13)	—	(18)	(77)
—	—	(221)	(229)	(25)	(7)	—	—	(256)	(248)
—	—	—	—	(73)	(74)	(181)	(171)	(328)	(277)
83	68	(341)	(390)	(64)	(84)	587	116	3 283	1 883
60,0%	76,5%	(83,3%)	137,6%	91,5%	100,2%	238,8%	164,4%	30,6%	33,6%
40,0%	23,5%	183,3%	(37,6%)	8,5%	(0,2%)	(138,8%)	(64,4%)	23,3%	17,5%
								2 731,3	2 634,5
3,0	2,6	(3,2)	(3,2)	0,9	(0,1)	(3,0)	(2,0)	72,1	53,2

at 31 December 2004

(All businesses consolidated at net asset value)	Note	2004 R million	2003 R million
Assets			
Property and equipment		184	220
Owner-occupied properties		380	390
Goodwill		1 865	1 855
Investments	6	32 565	26 010
Investment properties		682	662
Investment in associated companies		9 763	5 391
Investment in joint ventures		165	309
Equities		10 633	9 026
Public sector stocks and loans		3 182	2 874
Debentures, insurance policies and other loans		4 375	4 644
Cash, deposits and similar securities		3 765	3 104
Deferred tax		342	256
Short-term insurance technical assets	7	1 980	2 302
Working capital assets		27 205	30 081
Trade and other receivables	8	16 056	18 273
Cash, deposits and similar securities		11 149	11 808
Total assets		64 521	61 114
Equity and liabilities			
Capital and reserves			
Share capital and premium	9	4 360	3 514
Treasury stock		(486)	(403)
Non-distributable reserves		9 415	9 415
Revaluation reserve		2 843	–
Retained earnings		11 510	9 161
Shareholders' funds		27 642	21 687
Minority shareholders' interest		2 971	2 217
Outside shareholders		2 796	1 931
Sanlam policyholders		175	286
Term finance		4 791	4 200
Deferred tax		1 007	289
Short-term insurance technical provisions	7	5 198	5 156
Working capital liabilities	10	22 912	27 565
Total equity and liabilities		64 521	61 114

BALANCE SHEETS AT FAIR VALUE

at 31 December 2004

(Group businesses listed below not consolidated, but reflected as investments at fair value)

	Note	Sanlam Limited 2004 R million	Sanlam Limited 2003 R million	Sanlam Life Insurance Limited 2004 R million	Sanlam Life Insurance Limited 2003 R million
Assets					
Property and equipment		106	113	105	113
Owner-occupied properties		370	370	329	327
Goodwill[1]		351	–	31	–
Investments					
Sanlam businesses	5	7 785	6 237	5 229	3 606
Investment Management businesses		2 384	1 904	1 616	1 218
SIM Wholesale		1 616	1 218	1 616	1 218
International (SMMI & Octane)		398	325	–	–
Sanlam Collective Investments		370	300	–	–
Tasc		–	61	–	–
Life cluster businesses		496	214	–	–
Innofin[2]		187	214	–	–
Other[3]		309	–	–	–
Independent Financial Services cluster businesses		394	430	–	–
Sanlam Financial Services UK		349	378	–	–
Gensec Properties		12	52	–	–
Other[4]		33	–	–	–
Sanlam Capital Markets[5]		483	1 001	–	–
Santam		4 028	2 688	3 613	2 388
Associated company – Absa		9 429	5 181	9 429	5 181
Investment in joint venture – Safair Lease Finance[6]		140	–	–	–
Other investments		17 419	15 226	15 093	14 055
Other equities		7 441	6 670	7 356	6 172
Shares in holding company		–	–	110	482
Public sector stocks and loans		1 550	1 916	1 245	1 702
Investment properties		619	607	619	607
Other interest-bearing investments		7 809	6 033	5 763	5 092
Deferred tax		233	3	100	–
Working capital assets		6 932	5 296	6 608	6 115
Total assets		42 765	32 426	36 924	29 397
Equity and liabilities					
Shareholders' funds		29 982	22 819	25 983	19 736
Minority shareholders' interest		63	–	62	–
Term finance		5 064	4 501	4 661	4 861
Deferred tax		1 143	298	1 083	269
Working capital liabilities		6 513	4 808	5 135	4 531
Total equity and liabilities		42 765	32 426	36 924	29 397

[1] The goodwill relates mainly to the consolidation of Merchant Investors Assurance and is excluded in the build-up of the Group embedded value, as the current value of in-force business for this life insurance company is included in the embedded value.

[2] The value of Innofin on 31 December 2004 excludes the value of the IIIa business, as this is included in the calculation of the Group value of in-force business. On 31 December 2003, the value of the IIIa business was still included in the value of Innofin as disclosed above.

[3] Other Life cluster businesses comprise Direct Axis, Sanlam Home Loans, Multi-Data and Sanlam Trust, and are consolidated within the Sanlam Life Insurance Ltd Group and therefore not disclosed seperately as investment assets within the Sanlam Life Insurance column. These businesses were consolidated in the 2003 figures.

[4] Other Independent Financial Services businesses comprise Break-Thru Financial Services, Bull and Bear Financial Services, Simeka Employee Benefits, Green Capital and Octogen. Octogen is included at original cost in the 2003 comparative figures within other equities.

[5] The comparative figures for December 2003 refer to Gensec Bank (including the discontinued operations). The December 2004 figure includes only the activities of Sanlam Capital Markets.

[6] The Safair Lease Finance joint venture was previously included in the value of Gensec Bank, but as it is part of the discontinued operations, it is excluded from the value of Sanlam Capital Markets.

1. BASIS OF PRESENTATION AND ACCOUNTING POLICIES

The basis of presentation and accounting policies in respect of the financial statements for the shareholders' funds of the Sanlam Limited group are the same as those set out on pages 157 to 164.

Basis of consolidation

Sanlam Life, Santam, Sanlam Investment Management, Sanlam Netherlands Holding, Gensec Bank and Gensec Property Services (for 2003) are consolidated in the Sanlam Limited group shareholders' financial statements at net asset value. The policyholders' and outside shareholders' interests in these companies are treated as minority shareholders' interest on consolidation. A separate balance sheet reflecting the investment in these companies, other than Sanlam Life, at fair value is presented for information purposes. The embedded value of Sanlam Life (including the value of in-force life business) is not reflected in this balance sheet, but shown separately in the Embedded Value Report on page 231 to 237.

2. ANALYSIS OF NEW BUSINESS AND TOTAL FUNDS RECEIVED

Analysed per cluster, reflecting the split between Life and other business

	Total		Life Insurance[1]		Life Licence[1]		Other	
R million	2004	**2003**	2004	**2003**	2004	**2003**	2004	**2003**
Sanlam Life	18 463	15 361	11 117	9 698	–	165	7 346	5 498
Individual Life	6 432	6 297	6 432	6 297	–	–	–	–
Recurring	1 407	1 478	1 407	1 478	–	–	–	–
Single	3 466	3 263	3 466	3 263	–	–	–	–
Continuations	1 559	1 556	1 559	1 556	–	–	–	–
Employee benefits	2 394	2 291	2 394	2 291	–	–	–	–
Recurring	129	127	129	127	–	–	–	–
Single	2 265	2 164	2 265	2 164	–	–	–	–
Sanlam Namibia	1 463	475	185	80	–	–	1 278	395
Life	185	80	185	80	–	–	–	–
Unit Trust	1 278	395	–	–	–	–	1 278	395
Merchant Investors Assurance	606	–	606	–	–	–	–	–
Innofin[2]	7 568	6 298	1 500	1 030	–	165	6 068	5 103
Sanlam Investment Management	27 720	15 170	–	–	83	149	27 637	15 021
Employee benefits	83	149	–	–	83	149	–	–
Recurring	–	–	–	–	–	–	–	–
Single	159	214	–	–	159	214	–	–
Less: Inter group switches	(76)	(65)	–	–	(76)	(65)	–	–
Collective investment schemes	10 977	7 848	–	–	–	–	10 977	7 848
Cash funds	4 305	3 092	–	–	–	–	4 305	3 092
Equity funds	1 196	883	–	–	–	–	1 196	883
Wholesale business	2 145	1 363	–	–	–	–	2 145	1 363
White label	3 331	2 510	–	–	–	–	3 331	2 510
Segregated funds	15 041	7 046	–	–	–	–	15 041	7 046
Total inflow	15 338	8 796	–	–	–	–	15 338	8 796
Less: Inter group switches	(297)	(1 750)	–	–	–	–	(297)	(1 750)
International	1 619	127	–	–	–	–	1 619	127
Sanlam Financial Services UK	5 950	1 500	–	–	–	–	5 950	1 500
Santam	7 719	6 755	–	–	–	–	7 719	6 755
Total new business	59 852	38 786	11 117	9 698	83	314	48 652	28 774

2. ANALYSIS OF NEW BUSINESS AND TOTAL FUNDS RECEIVED *(continued)*

	Total		Life Insurance[1]		Life Licence[1]		Other	
R million	2004	**2003**	2004	**2003**	2004	**2003**	2004	**2003**
Recurring premiums on existing funds:								
Sanlam Life	10 677	9 885	10 677	9 885	—	—	—	—
Sanlam Investment Management	202	212	—	—	202	212	—	—
Gross	303	212	—	—	303	212	—	—
Less: Intergroup switches	(101)	—	—	—	(101)	—	—	—
Total funds received	70 731	48 883	21 794	19 583	285	526	48 652	28 774

[1] *Life licence business relates to investment products provided by Sanlam Investment Management and Innofin by means of a life insurance policy where there is very little or no insurance risk.*

[2] *For the 2004 year Innofin's results are reported as part of the Sanlam Life cluster (for the 2003 year it was reported as part of the Investment cluster). Comparative figures were restated accordingly and as a result the portion of premium income, which was used to calculate the restated APE, is reported under Life Insurance business.*

	2004 R million	**2003 R million**
Analysed per type of business or licence		
Life insurance	11 200	10 012
Investments	40 933	22 019
Short-term insurance	7 719	6 755
Total new business	59 852	38 786
Premiums on existing business	10 879	10 097
Total funds received	70 731	48 883
The new business premiums used in the calculation of Annual Premium Equivalent (APE) is detailed below		
Recurring premiums	1 005	1 026
Individual Life	1 407	1 478
Less: index growth	(619)	(643)
Add: optional reductions	36	38
Employee benefits	129	127
Merchant Investors Assurance	6	—
Sanlam Namibia	46	26
Single premiums	9 529	8 067
Individual Life	5 025	4 819
Employee benefits	2 265	2 164
Merchant Investors Assurance	600	—
Sanlam Namibia	139	54
Innofin (IIIa's)	1 500	1 030
Total premiums used to calculate APE	10 534	9 093
APE	1 958	1 832

3. ANALYSIS OF PAYMENTS TO CLIENTS

	Total		Life Insurance[1]		Life Licence[1]		Other	
R million	2004	2003	2004	2003	2004	2003	2004	2003
Sanlam Life	27 954	25 322	23 423	22 581	–	–	4 531	2 741
Individual Life	14 424	15 773	14 424	15 773	–	–	–	–
Surrenders	3 190	3 081	3 190	3 081	–	–	–	–
Other	11 234	12 692	11 234	12 692	–	–	–	–
Employee benefits	6 722	5 387	6 722	5 387	–	–	–	–
Terminations[2]	1 736	1 256	1 736	1 256	–	–	–	–
Other benefits	5 004	4 131	5 004	4 131	–	–	–	–
Less: Inter group switches[3]	(18)	–	(18)	–	–	–	–	–
Sanlam Namibia	1 343	984	560	677	–	–	783	307
Life	560	677	560	677	–	–	–	–
Unit Trust	783	307	–	–	–	–	783	307
Merchant Investors Assurance	938	–	938	–	–	–	–	–
Innofin	4 527	3 178	779	744	–	–	3 748	2 434
Sanlam Investment Management	21 560	14 160	–	–	2 123	2 623	19 437	11 537
Employee benefits	2 123	2 623	–	–	2 123	2 623	–	–
Terminations[2]	1 819	3 909	–	–	1 819	3 909	–	–
Other benefits	583	529	–	–	583	529	–	–
Less: Inter group switches[3]	(279)	(1 815)	–	–	(279)	(1 815)	–	–
Collective investment schemes	9 571	6 634	–	–	–	–	9 571	6 634
Cash funds	3 808	2 235	–	–	–	–	3 808	2 235
Equity funds	1 582	1 228	–	–	–	–	1 582	1 228
Wholesale business	1 859	1 563	–	–	–	–	1 859	1 563
White label	2 322	1 608	–	–	–	–	2 322	1 608
Segregated funds	9 069	4 721	–	–	–	–	9 069	4 721
Total outflow	9 246	4 721	–	–	–	–	9 246	4 721
Less: Inter group switches	(177)	–	–	–	–	–	(177)	–
International	797	182	–	–	–	–	797	182
Sanlam Financial Services UK	267	138	–	–	–	–	267	138
Santam	4 397	4 375	–	–	–	–	4 397	4 375
Consolidation	(38)	(68)	(38)	–	9	(68)	(9)	–
Total payments to clients	54 140	43 927	23 385	22 581	2 132	2 555	28 623	18 791

[1] *Life licence business relates to investment products provided by Sanlam Investment Management and Innofin by means of a life insurance policy where there is very little or no insurance risk.*

[2] *Includes taxation paid on behalf of certain retirement funds.*

[3] *Included in terminations.*

	2004 R million	2003 R million
Analysed per type of business or licence		
Life insurance	25 517	25 136
Investments	24 226	14 416
Short-term insurance	4 397	4 375
Total payments to clients	54 140	43 927

4. ANALYSIS OF NET INFLOW/(OUTFLOW) OF FUNDS

R million	Total 2004	Total 2003	Life Insurance[1] 2004	Life Insurance[1] 2003	Life Licence[1] 2004	Life Licence[1] 2003	Other 2004	Other 2003
Sanlam Life	1 186	(76)	(1 629)	(2 998)	–	165	2 815	2 757
Individual Life	(702)	(2 411)	(702)	(2 411)	–	–	–	–
Employee benefits	(1 773)	(603)	(1 773)	(603)	–	–	–	–
Namibia	446	(182)	(49)	(270)	–	–	495	88
Merchant Investors Assurance	174	–	174	–	–	–	–	–
Innofin	3 041	3 120	721	286	–	165	2 320	2 669
Sanlam Investment Management	6 362	1 222	–	–	(1 838)	(2 262)	8 200	3 484
Employee benefits	(1 838)	(2 262)	–	–	(1 838)	(2 262)	–	–
Total	(1 940)	(4 012)	–	–	(1 940)	(4 012)	–	–
Less: Inter group switches	102	1 750	–	–	102	1 750	–	–
Collective investment schemes	1 406	1 214	–	–	–	–	1 406	1 214
Cash funds	497	857	–	–	–	–	497	857
Equity funds	(386)	(345)	–	–	–	–	(386)	(345)
Wholesale business	286	(200)	–	–	–	–	286	(200)
White label	1 009	902	–	–	–	–	1 009	902
Segregated funds	5 972	2 325	–	–	–	–	5 972	2 325
Total	6 092	4 075	–	–	–	–	6 092	4 075
Less: Inter group switches	(120)	(1 750)	–	–	–	–	(120)	(1 750)
International	822	(55)	–	–	–	–	822	(55)
Sanlam Financial Services UK	5 683	1 362	–	–	–	–	5 683	1 362
Santam	3 322	2 380	–	–	–	–	3 322	2 380
Consolidation	38	68	38	–	(9)	68	9	–
Total net inflow/(outflow)	16 591	4 956	(1 591)	(2 998)	(1 847)	(2 029)	20 029	9 983

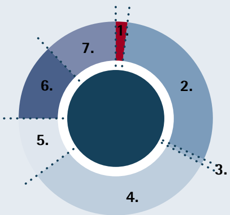
[1] *Life licence business relates to investment products provided by Sanlam Investment Management and Innofin by means of a life insurance policy where there is very little or no insurance risk.*

	2004 R million	2003 R million
Analysed per type of business or licence		
Life insurance	(3 438)	(5 027)
Investments	16 707	7 603
Short-term insurance	3 322	2 380
Total net inflow	16 591	4 956

	2004 R million	2003 R million
5. EXCESS OF FAIR VALUE OVER NET ASSET VALUE OF SUBSIDIARIES		
The shareholders' funds balance sheets at fair value include the value of the companies below based on directors' valuation, apart from Santam which is valued according to ruling share prices.		
Net asset value of Sanlam businesses[1]	4 116	3 772
Investment Management businesses	504	368
SIM Wholesale	336	230
International (SMMI & Octane)	90	42
Sanlam Collective Investments	78	78
Tasc	—	18
Life cluster businesses	139	152
Innofin	146	152
Other	(7)	—
Independent Financial Services cluster businesses	328	430
Sanlam Financial Services UK	288	402
Gensec Properties	5	28
Other	35	—
Sanlam Capital Markets	483	1 001
Santam	2 662	1 821
Goodwill in respect of above businesses	1 027	1 198
Deferred capital gains tax on investments at fair value	302	135
Revaluation adjustment of interest in businesses to fair value	2 340	1 132
Fair value of Sanlam businesses	7 785	6 237
[1] *Goodwill included in the net asset value of the respective businesses, is as follows:*		
SIM Wholesale	*19*	*29*
International (SMMI & Octane)	*11*	*16*
Innofin	*82*	*91*
Sanlam Financial Services UK	*312*	*402*
Gensec Bank	*—*	*10*
Santam	*63*	*109*
Total goodwill included in the net asset value	*487*	*657*

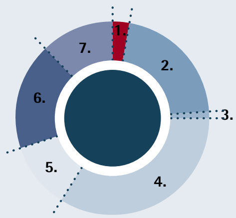
6. INVESTMENTS

TOTAL SHAREHOLDERS' FUNDS INVESTMENT MIX
2004



1.	Investment properties	2%
2.	Investment in associated companies	30%
3.	Investment in joint ventures	1%
4.	Equities	32%
5.	Public sector stocks and loans	10%
6.	Debentures, insurance policies and other loans	13%
7.	Cash, deposits and similar securities	12%

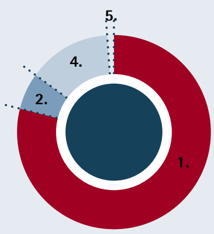
TOTAL SHAREHOLDERS' FUNDS INVESTMENT MIX
2003



1.	Investment properties	3%
2.	Investment in associated companies	21%
3.	Investment in joint ventures	1%
4.	Equities	34%
5.	Public sector stocks and loans	11%
6.	Debentures, insurance policies and other loans	18%
7.	Cash, deposits and similar securities	12%

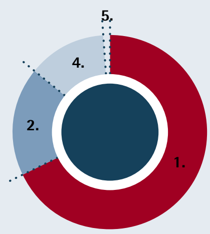
	2004 R million	2003 R million
Investment in associated companies		
Absa limited	9 541	5 239
Other associated companies	222	152
Total investment in associated companies	9 763	5 391
Details of the investment in the material associated company, Absa Limited, are reflected in note 4 on page 174 of the Sanlam Limited group financial statements.		
Investment in joint venture		
Details of the investment in the joint venture Safair Lease Finance (Proprietary) Limited, are reflected in note 4 on page 174 of the Sanlam Limited group financial statements.		
Equity investments		
Listed on the JSE – at market value	8 425	6 126
Unlisted – at directors' valuation	667	1 592
Derivative equity investments	1	41
Offshore equity investments	1 439	1 197
Unit trusts	101	70
Total equity investments	10 633	9 026

TOTAL SHAREHOLDERS' FUNDS EQUITY INVESTMENTS MIX
2004



1.	Listed on the JSE – at market value	79%
2.	Unlisted – at director's valuation	6%
3.	Derivative equity investments	0%
4.	Offshore equity investments	14%
5.	Collective investment schemes	1%

TOTAL SHAREHOLDERS' FUNDS EQUITY INVESTMENTS MIX
2003



1.	Listed on the JSE – at market value	68%
2.	Unlisted – at director's valuation	18%
3.	Derivative equity investments	0%
4.	Offshore equity investments	13%
5.	Collective investment schemes	1%

	2004 %	2003 %
6. INVESTMENTS *(continued)*		
Spread of investments in equities listed on JSE by sector[1]:		
Basic Industries	2,8	3,1
Cyclical consumer goods	4,3	4,7
Cyclical services	16,0	6,9
Financials	32,0	28,7
General industrials	5,3	4,7
Information technology	0,5	1,9
Non-cyclical consumer goods	8,5	10,8
Non-cyclical services	5,8	4,0
Resources	22,7	35,0
Other	2,1	0,2
	100,0	100,0

[1] *Excludes offshore equities, derivatives, collective investment schemes and unlisted investments and includes the appropriate underlying investments of Santam.*

	R million	R million
Offshore investments		
Equities	1 439	1 190
Interest-bearing investments	1 373	1 198
Total offshore investments	2 812	2 388

Register of investments

A register containing details of all investments, including fixed property investments, is available for inspection at the registered office of Sanlam Limited.

7. SHORT-TERM INSURANCE TECHNICAL ASSETS AND PROVISIONS

Details of short-term insurance technical assets and provisions are reflected in note 6 on page 178 of the Sanlam Limited group financial statements.

8. TRADE AND OTHER RECEIVABLES		
Premiums receivable	681	504
Accrued investment income	304	262
Trading account and money market investments	12 686	10 896
Accounts receivable	2 385	6 611
Total trade and other receivables	16 056	18 273

9. SHARE CAPITAL AND PREMIUM

Details of share capital and premium are reflected in note 8 on page 178 of the Sanlam Limited group financial statements.

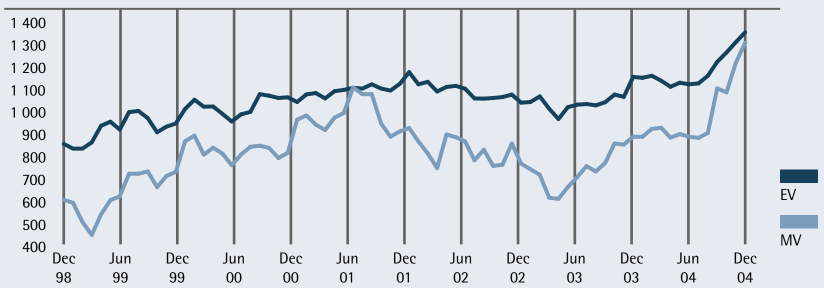
10. WORKING CAPITAL LIABILITIES		
Trading account and money market liabilities	13 972	18 758
Accounts payable	5 042	5 773
Provisions	465	499
Policy benefits payable	1 637	1 569
Short-term portion of trade finance	413	–
Bank overdrafts	196	39
Taxation	1 187	927
Total working capital liabilities	22 912	27 565

	2004	2003	2002	2001	2000	1999	1998[1]
Number of shares traded (million)	1 716	1 709	1 531	1 118	1 030	1 463	350
Value of shares traded (R million)	16 661	12 550	12 807	10 780	8 578	9 451	2 035
Percentage of issued shares traded (%)	62	64	58	42	39	55	13
Price/Earnings ratio (times)	11,1	9,9	9,4	9,3	10,6	11,7	–
Price/LTRR earnings ratio (times)	8,6	7,0	6,2	6,9	7,3	8,4	–
Return on Sanlam share price since listing[2] (%)	16	11	9	17	27	41	–
Headline earnings return on equity (%)	16,4	15,1	15,6	17,4	18,7	16,3	–
Market price per share (cents)							
• Year-end closing price	1 300	880	760	919	956	860	585
• Highest closing price	1 300	880	1 000	1 145	1 000	890	599
• Lowest closing price	830	585	700	830	675	40	567
Net asset value per share (cents)	1 100	883	798	927	831	810	630
Embedded value per share (cents)	1 346	1 131	1 021	1 167	1 067	1 004	827
Market capitalisation at year-end (R million)	35 979	23 360	20 175	24 192	25 381	22 833	15 531

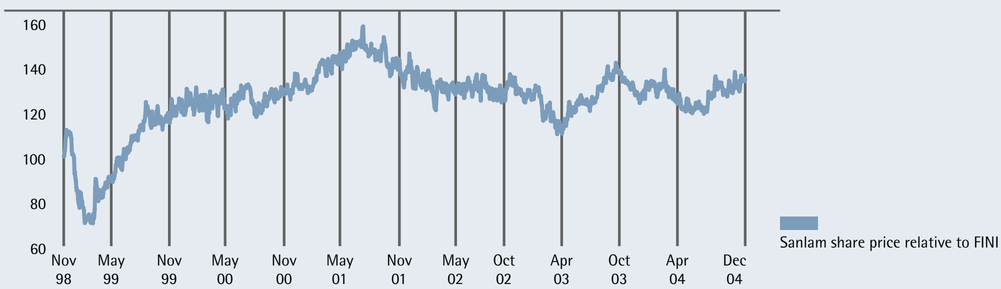
[1] *Sanlam Limited was listed on 30 November 1998.*

[2] *Annualised growth in the Sanlam share price since listing plus dividends paid.*

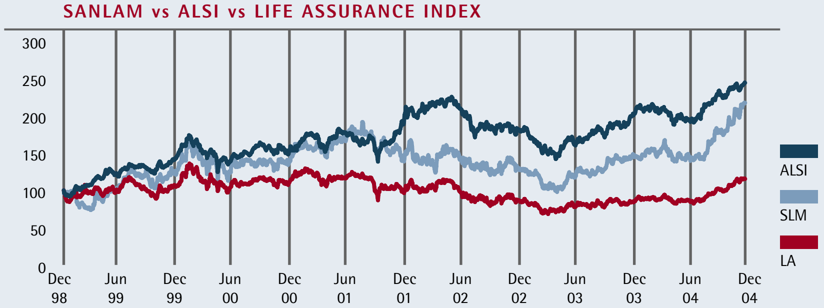
SHARE PRICE vs EMBEDDED VALUE



SANLAM SHARE PRICE RELATIVE TO FINI



SANLAM vs ALSI vs LIFE ASSURANCE INDEX



To the directors of Sanlam Limited

We have audited the Report on the Sanlam Group Embedded Value for the year ended 31 December 2004 on pages 231 to 237, which has been prepared in accordance with the applicable guidelines of the Actuarial Society of South Africa (PGN107) and the policies of the Group set out on pages 157 to 164. This report should be read in conjunction with the audited annual financial statements where the policy liabilities, calculated on the financial soundness valuation basis, and the profit entitlement rules are set out on pages 164 to 167.

Respective responsibilities of directors and independent auditors

The directors are responsible for the annual financial statements, as described on page 153, as well as the Report on the Sanlam Group Embedded Value. Our responsibilities in relation to the annual financial statements are set out on page 155.

Our responsibilities, as independent auditors, in relation to the Report on the Sanlam Group Embedded Value are to report to the board of directors as to whether the embedded value and the value of new life insurance business were calculated in accordance with the applicable guidelines of the Actuarial Society of South Africa and the policies of the Group as set out in the Report on the Sanlam Group Embedded Value.

Scope of audit

We conducted our audit in accordance with Statements of South African Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance that the Report on the Sanlam Group Embedded Value is free of material misstatement.

Our audit included:

- an examination, on a test basis, of evidence supporting the amounts and disclosures in the Report on the Sanlam Group Embedded Value,
- an assessment of the significant assumptions, estimates and judgements made by the management in the preparation of the Report on the Sanlam Group Embedded Value, and of whether the guidelines of the Actuarial Society of South Africa, the methodologies and the policies of the Group, were consistently applied and adequately disclosed, and
- an evaluation of the overall adequacy of the presentation of information in the Report on the Sanlam Group Embedded Value in accordance with the guidelines of the Actuarial Society of South Africa.

We believe our audit provided a reasonable basis for our opinion.

Opinion

In our opinion the Group embedded value and the value of the new life insurance business at 31 December 2004 and the embedded value earnings and analysis of earnings for the year then ended fairly presents, in all material respects, these values in accordance with the guidelines of the Actuarial Society of South Africa for the preparation and presentation of such a report and the policies and assumptions of the Group as set out in pages 231 to 237 of the Report on the Sanlam Group Embedded Value.

Ernst + Young

ERNST & YOUNG
Chartered Accountants (SA)
Registered Accountants and Auditors

Cape Town
2 March 2005

1. Introduction

The life policy liabilities in the financial statements are based on the financial soundness valuation. The financial soundness valuation includes both prescribed and discretionary margins, which can be expected to emerge as profits in the future. The value placed on these future expected profits after taxation is the value of the in-force life business.

The embedded value (EV) is defined as the net assets of the shareholders, plus the value of the in-force business less the cost of the capital at risk.

The economic value of the company is then derived by adding to the embedded value an estimate of the value of the future sales of new life insurance business, often calculated as a multiple of the value of new business written over the past year.

2. Presentation

This report presents the embedded value of the Sanlam group, rather than that of Sanlam Life Insurance Limited. In addition, the report also presents the net value of new life insurance business.

3. Basis of preparation

The embedded value is determined in accordance with generally accepted actuarial practice described by the Actuarial Society of South Africa, as set out in its Professional Guidance Note 107.

The value of in-force business only includes the value of life insurance business of the Group.

The value of the in-force business, the cost of capital at risk and the value of new business are based on the best estimate assumptions used for determining the financial soundness value of the policy liabilities in the financial statements. The embedded value does not place a value on future new business.

The embedded values are net of company tax and do not allow for the tax position of an investor in Sanlam Limited.

3.1 Value of in-force business

The value of in-force business is calculated as the discounted value, using a risk-adjusted discount rate, of the projected stream of future after-tax profits. The profits are determined on the financial soundness valuation basis for life business in force at the valuation date. This value excludes the discounted value of the release of the risk capital over the life of the in-force business.

3.2 Cost of capital at risk

The cost of capital at risk is calculated as the capital at risk at year-end less the discounted value, using a risk-adjusted discount rate, of the expected annual release of the capital over the life of the in-force business, allowing for the after-tax investment return on the expected level of capital held in each year.

3.3 Net assets of shareholders

The net assets of the shareholders equal the excess of the assets at fair value over liabilities on the financial soundness valuation basis. The net assets are adjusted for the following:

- The subsidiaries, other than life insurance subsidiaries, are included at fair value (refer to shareholders' funds balance sheet on page 221);
- A delay before incurring the capital gains tax liability included in the fair value;
- A reduction of the present value of corporate expenses by multiplying the cost after tax by the market price per share of Sanlam Limited and dividing it by the headline earnings per share based on the long-term rate of return;
- The fair value of the Sanlam employee share incentive scheme options outstanding (in the money option value) on the valuation date;
- In the embedded value calculations the unamortised goodwill for Merchant Investors Assurance (MIA) is reversed from shareholders' net assets and replaced in the value of in-force calculation with the value of MIA's in-force business; and
- The reversal of the deferred tax asset based on the unused Secondary Tax on Companies (STC) credits included in the net asset value, as the value of the in-force business already includes an allowance for STC credits.

3.4 Value of new business

The value of new business is calculated as the discounted value at point of sale, using a risk-adjusted discount rate, of the projected stream of after-tax financial soundness valuation profits for new business issued during the financial year under review. The value of new business is reduced by the cost of capital at risk over the life of this business to obtain the net embedded value of new business.

In determining the value of new business:

- A policy is only taken into account if at least one premium that is not subsequently refunded is recognised in the financial statements;
- Premium increases that have been allowed for in the value of in-force business are not counted again as new business at inception;
- Increases in existing recurring premium contracts associated with indexation arrangements are not included, but instead are allowed for in the value of in-force business;
- The expected value of future premium increases resulting from premium indexation on the new recurring premium business written during the financial year under review is included;
- Continuations of individual policies and deferrals of retirement annuity policies after the maturity dates in the contract are treated as new business if they have been included in the exits at their respective maturity dates;
- For employee benefits, increases in business from new schemes or new benefits on existing schemes are included and new members or salary-related increases under existing schemes are excluded and form part of the in-force value; and
- The renewable recurring premiums under group insurance contracts are treated as in-force business.

Profitability of new business is measured by the ratio of the net value of new business to the annual premium equivalent. The APE is calculated as new recurring premiums excluding indexed growth premiums plus 10% of single premiums.

3.5 Embedded value earnings

The return on embedded value is the embedded value earnings before dividends are paid, capital raised and cost of treasury shares acquired as a percentage of the embedded value at the beginning of the year.

The embedded value earnings for 2003 has been restated to include the change in fair value of the Sanlam employees share incentive scheme but not to include Innofin life business embedded value earnings for the period.

The growth from life business is expressed as a percentage of the value of in-force business at the beginning of the year.

3.6 Sensitivity analysis

Sensitivities have been determined at the indicated risk discount rate. The risk discount rate appropriate to an investor will depend on the investor's own requirements, tax position and perception of the risk associated with the realisation of the future profits from the Group's life insurance business. For each sensitivity, all other assumptions have been left unchanged. The different sensitivities do not indicate that they have a similar chance of occurring.

3.7 Share incentive scheme

The embedded values are adjusted for the fair value of the Sanlam employee share incentive scheme options outstanding at the valuation date. The value is calculated using a generally accepted statistical model making allowance for:

- Actual vesting dates;
- The Sanlam Limited share price at valuation date; and
- Forfeiture rates, dividend yield and volatility consistent with the IFRS 2 share based payments valuation principles.

4. Assumptions

4.1 Investment return and inflation

The investment return on assets supporting the capital at risk is based on the long-term asset mix for these funds.

Inflation indexation for individual life premiums is assumed to be equal to consumer price index inflation, while that for employee benefits is assumed to equal expected salary inflation. Unit cost inflation is assumed to be at the same level as salary inflation.

4.2 Cost of capital at risk

The assumed composition of the assets backing the capital at risk is consistent with Sanlam's practice and with the asset distribution assumed when calculating the capital requirements.

4.3 Decrements, expenses and bonuses

Future mortality, morbidity and discontinuance rates and future expense levels are based on recent experience where appropriate.

Future rates of bonuses for traditional participating business, stable bonus business and participating annuities are set at levels that are supportable by the assets backing the respective product asset funds at the respective valuation dates.

Sanlam's current surrender and paid-up bases are assumed to be maintained in the future.

4.4 HIV/Aids

Allowance is made, where appropriate, for the impact of expected HIV/Aids-related claims, consistent with the recommendations of the Actuarial Society of South Africa as set out in its proposed Professional Guidance Note 105.

Premiums on individual business are assumed to be rerated, where applicable, in line with deterioration in mortality, with a three-year delay from the point where mortality losses would be experienced.

4.5 Recurring expenses and project costs

Future investment expenses are based on the current scale of fees in place between Sanlam Investment Management and Sanlam Life Insurance Limited. To the extent that this scale of fees includes profit margins for Sanlam Investment Management, these margins have not been included in the value of in-force and new business.

In determining the value of in-force business, the value of expenses for certain planned projects focusing on both administration and distribution aspects of the life insurance business has been deducted. These projects are of a short-term nature, although similar projects may be undertaken from time-to-time. No allowance has been made for the expected positive impact these projects may have on the future operating experience of Sanlam Life.

4.6 Taxation

Projected corporate tax is allowed for at a rate of 30%. Allowance is made for capital gains tax. The assumed roll-over period for realisation of investments is five years for property and equity assets supporting policy reserves. For property and equity assets supporting capital at risk the assumed roll-over period is also five years except for Santam (ten years) and ABSA (not discounted).

Allowance for secondary tax on companies is made by placing a present value on the tax liability generated by the net cash dividends paid out that are attributable to the life company. It is assumed that over the long term the proportion of cash dividends paid out would fall to a level of 50% from the current 100% level.

4.7 Sensitivity analysis

Risk premiums relating to mortality are assumed to be increased consistent with mortality experience (where appropriate).

The mortality assumption relating to annuities is decreased, because a decrease in mortality increases the mortality risk on annuities.

5. Embedded value methodology

The embedded value methodology applied in preparing the embedded value report is consistent with the methodology used in the previous year. There are no material changes in the methodology used except for the deduction of the fair value of the Sanlam employee share incentive scheme.

6. SANLAM GROUP EMBEDDED VALUE

	2004	2003
Risk discount rate	10,8%	11,9%
	R million	**R million**
Sanlam group shareholders' funds at fair value	29 982	22 819
Adjustment for discounting capital gains tax[1]	138	91
Adjustment to include business under value of in-force[2]	(321)	(449)
Present value of strategic corporate expenses[3]	(883)	(592)
Fair value of share incentive scheme[4]	(799)	(431)
STC deferred tax asset written down[5]	(100)	–
Sanlam group shareholders' adjusted net assets	28 017	21 438
Net value of life insurance business in force	8 697	7 793
Value of life insurance business in force	10 097	9 143
– Individual business	8 959	7 884
– Employee benefits	1 138	1 259
Cost of capital at risk	(1 400)	(1 350)
– Individual business	(1 128)	(936)
– Employee benefits	(272)	(414)
Minority shareholders' interest in value of in-force life insurance business	(32)	–
Sanlam group embedded value	36 682	29 231
– Embedded value per share (cents)[6]	1 346	1 131
– Number of shares (million)[6]	2 726	2 585

NOTES:

[1] *Adjustment to allow for the delay before incurring the capital gains tax liability included in the fair value.*

[2] *Reverse goodwill relating to Merchant Investors Assurance (MIA), as its value of in-force business is included in the total value of life insurance business in force. (The December 2003 adjustment also includes the transfer of Innofin's life insurance business from net assets to value of in-force.)*

[3] *The December 2004 value has been calculated by multiplying the 2004 recurring corporate expenses not related to life business (after tax) of R103 million by the share price of 1 300 cents and dividing by the headline earnings per share based on the long-term rate of return of 151,6 cents.*

[4] *The fair value of the Sanlam share incentive scheme has been determined using a statistical model. Actual options outstanding have been valued based on the actual share price and dividend yield at the valuation date.*

[5] *The deferred tax asset in respect of the unused STC credits, included in the net asset value, is reversed as the value of in-force business already includes an allowance for STC.*

[6] *The value per share is net of the dilution resulting from the Ubuntu-Botho transaction and deferred shares with vested conversion rights for the period.*

7. EMBEDDED VALUE EARNINGS

	2004 R million	2003 R million
Embedded value from new life insurance business[1]	324	218
Earnings from existing life insurance business	1 358	1 404
– Expected return	1 145	1 153
– Operating experience variations[2]	142	241
– Operating assumption changes[2]	71	10
Embedded value earnings from life operations	1 682	1 622
Economic assumption changes	197	99
Tax changes	–	(6)
Investment variances[3]	253	(50)
Exchange rate movements	(37)	–
Growth from life insurance business	2 095	1 665
Investment return on shareholders' adjusted net assets	6 389	2 226
Change in minority shareholders' interest in value of in-force	(32)	–
Change in fair value of share incentive scheme[4]	(368)	(150)
Total embedded value earnings before dividends are paid, capital raised and cost of treasury shares acquired	8 084	3 741
Dividends paid	(1 082)	(972)
Capital raised	846	–
Cost of treasury shares acquired	(397)	(344)
Change in Sanlam group embedded value	7 451	2 425
Growth from life insurance business as a % of beginning value of in-force	26,9%	24,7%
Return on embedded value[5]	27,7%	14,0%
Return on embedded value per share[6]	22,5%	14,2%

NOTES:

[1] *For the purposes of the embedded value earnings for 2003, the embedded value from new life business has not been restated to include Innofin life business embedded value.*

[2] *The main contributor to the operating experience variation was positive risk experience of R168 million. Expense savings contributed R37 million to the operating experience variation, R99 million to the operating assumption changes and also gave rise to an improved new business embedded value margin.*

[3] *Investment variances include the effect of changes in CAR management actions and the long-term asset mix.*

[4] *The change in the fair value of the Sanlam share incentive scheme has been included in the embedded value earnings of both periods for the first time.*

[5] *Total embedded value earnings before dividends paid, capital raised and cost of treasury shares acquired, as a percentage of embedded value at the beginning of the period.*

[6] *The return on the embedded value per share is after the dilution resulting from the Ubuntu-Botho transaction and deferred shares with vested conversion rights for the period.*

8. VALUE OF NEW LIFE INSURANCE BUSINESS

		2004 R million	2003 R million
Value of new business		342	260
Individual business – RSA		282	200
Employee benefits – RSA		46	57
International[1]		14	3
Cost of capital at risk		(18)	(28)
Individual business – RSA		(10)	(17)
Employee benefits – RSA		(5)	(11)
International[1]		(3)	–
Net value of new business[2]		324	232
Net value of new business as a percentage of the annual premium equivalent			
Annual premium equivalent (APE)[3]		1 958	1 832
Individual business – RSA		1 489	1 470
Employee benefits – RSA		356	343
International[1]		113	19
Net value of new business		324	232
Individual business – RSA		272	183
Employee benefits – RSA		41	46
International[1]		11	3
APE margin	%	16,5	12,7
Individual business – RSA	%	18,3	12,4
Employee benefits – RSA	%	11,5	13,4
International[1]	%	9,7	15,8

NOTES:

[1] *International includes Sanlam Namibia and MIA.*

[2] *The net value of new business for 2003 has been restated to include Innofin's life insurance business of R14 million to enhance comparability.*
The 2004 net value of new business includes R2 million of minority shareholders' interest.

[3] *APE is equivalent to new recurring premiums plus 10% of single premiums.*

9. NEW BUSINESS PREMIUMS

	2004 R million	2003 R million
Financial statements		
New business premiums	11 200	10 012
Less: Premium increases (index growth)	(619)	(643)
Plus: Optional reduction in premiums	36	38
Less: Other life business[1]	(83)	(314)
Premiums used in the calculation of APE	10 534	9 093
New business embedded value premiums		
Recurring premiums	1 005	1 026
Single premiums	9 529	8 067
Premiums used in the calculation of APE	10 534	9 093

NOTES:

[1] *The majority of profits in respect of these premiums accrue to Sanlam Investment Management.*

10. SENSITIVITY ANALYSIS AT 31 DECEMBER 2004

	Gross value of in-force business R million	Cost of capital at risk R million	Net value of in-force business R million	Change from base value %
Value of in-force business				
Base value	10 097	(1 400)	8 697	
• Increase risk discount rate by 1,0% to 11,8%	9 481	(1 724)	7 757	(11)
• Decrease risk discount rate by 1,0% to 9,8%	10 773	(1 040)	9 733	12
• Investment return (and inflation) decreased by 1,0%, *coupled with a 1,0% decrease in risk discount rate to 9,8%*, and with bonus rates changing commensurately	10 119	(1 341)	8 778	1
• Investment return (and inflation) decreased by 1,0% and with bonus rates changing commensurately	9 284	(1 665)	7 619	(12)
• Non-commission maintenance expenses (excluding investment expenses) increase by 10%	9 798	(1 396)	8 402	(3)
• Discontinuance rates increase by 10%	9 890	(1 347)	8 543	(2)
• Mortality and morbidity increased by 10% for assurances, coupled with a 10% decrease in mortality for annuities	9 547	(1 384)	8 163	(6)
• Assets fall by 10%	9 259	(1 377)	7 882	(9)

	Gross value of new business R million	Cost of capital at risk R million	Net value of new business R million	Change from base value %
Value of new business				
Base value	342	(18)	324	
• Increase risk discount rate by 1,0% to 11,8%	305	(21)	284	(12)
• Decrease risk discount rate by 1,0% to 9,8%	383	(14)	369	14
• Investment return (and inflation) decreased by 1,0%, *coupled with a 1,0% decrease in risk discount rate to 9,8%*, and with bonus rates changing commensurately	359	(18)	341	5
• Investment return (and inflation) decreased by 1,0% and with bonus rates changing commensurately	322	(20)	302	(7)
• Non-commission maintenance expenses (excluding investment expenses) increase by 10%	319	(18)	301	(7)
• Non-commission acquisition expenses increase by 10%	296	(17)	279	(14)
• Discontinuance rates increase by 10%	321	(17)	304	(6)
• Mortality and morbidity increased by 10% for assurances, coupled with a 10% decrease in mortality for annuities	292	(18)	274	(15)
• New business volumes decrease by 10%	271	(16)	255	(21)

11. ASSUMPTIONS

	2004 % p.a.	2003 % p.a.
Gross investment return and inflation[1]		
Fixed-interest securities	8,3	9,4
Equities and offshore investments	10,3	11,4
Hedged equities[2]	8,3	8,4
Property	9,3	10,4
Cash	6,3	7,4
Risk discount rate	10,8	11,9
Return on capital at risk[3]	9,1	10,0
Unit cost and salary inflation	4,3	5,4
Consumer price index inflation	3,3	3,9

	2004 %	2003 %
Long-term asset mix for assets supporting the capital at risk		
Equities	42	42
Hedged equities	26	26
Property	8	8
Fixed-interest securities	20	20
Cash	4	4
	100	100

NOTES:

[1] *The economic assumptions used for all life business except MIA.*

[2] *The assumed future return for these assets is lower than that of equities, which are not hedged, reflecting the cost of derivative instruments.*

[3] *The investment return on assets supporting the capital at risk is based on the long-term asset mix for these funds.*

12. CHANGE IN METHODOLOGY

	2003 R million
Sanlam group Embedded Value previously published	29 662
Adjustment – fair value of the Sanlam share incentive scheme	(431)
Restated embedded value	29 231

"billion"	–	one thousand million;
"bonus pension"	–	a bonus pension is a policy which provides immediate annuities, the benefits of which are increased annually with bonuses declared;
"capital adequacy"	–	capital adequacy implies the existence of a buffer against experience worse than that assumed in the financial soundness valuation. The sufficiency of the buffer is measured by comparing available capital with the capital adequacy requirement. The main element in the calculation of the capital adequacy requirement is the determination of the effect of an assumed fall in asset values on the excess of assets over liabilities;
"embedded value"	–	embedded value represents the net assets of a life company together with the value of the portfolio of business in force, net of the cost of capital at risk in relation to this business;
"immediate annuity"	–	a policy which provides that, in consideration for a single premium, a series of regular benefit payments will be made for a defined period;
"linked policy"	–	a non-participating policy which is allotted units in an investment portfolio. The value of the policy at any stage is equal to the number of units multiplied by the unit price at that stage less the value of unrecouped expenses;
"market-related policy"	–	a participating policy which participates in non-vesting investment growth. This growth reflects the volatility of the market value of the underlying assets of the policy;
"new business embedded value"	–	the value of new business is calculated as the discounted value, using a risk-adjusted discount rate, of the projected stream of after-tax financial soundness valuation profits for new business issued during the financial year under review, net of the cost of capital at risk over the life of this business;
"non-participating policy"	-	a policy which provides benefits that are fixed contractually, either in monetary terms or by linking them to the return of a particular investment portfolio, eg a linked or fixed-benefit policy;
"participating policy"	-	a policy which provides guaranteed benefits as well as discretionary bonuses. The declaration of such bonuses will take into account the return of a particular investment portfolio. Reversionary bonus, stable bonus, market related and bonus pension policies are participating policies;
"policy"	-	unless the context indicates otherwise, a reference to a policy in this report means an insurance policy issued by Sanlam Life Insurance Limited in accordance with the Long-Term Insurance Act;
"reversionary bonus policy"	-	a conventional participating policy which participates in reversionary bonuses, i.e. bonuses of which the face amounts are only payable at maturity or on earlier death or disability. The present value of such bonuses is less than their face amounts;
"Sanlam Life Insurance Limited"	-	a wholly-owned subsidiary of Sanlam Limited conducting mainly life insurance business;
"Sanlam Limited"	-	the holding company listed on the JSE Securities Exchange South Africa and the Namibian Stock Exchange;
"Sanlam" and "Sanlam group"	-	Sanlam Limited and its subsidiaries;
"stable bonus policy"	-	a participating policy under which bonuses tend to stabilise short-term volatility in investment performance;
"surrender value"	-	the surrender value of a policy is the cash value, if any, which is payable in respect of that policy upon cancellation by the policyholder.

SANLAM LIMITED

(Incorporated in the Republic of South Africa)

(Registration No 1959/001562/06)

Notice is hereby given that the seventh Annual General Meeting of the Members of Sanlam Limited (the Company) will be held on Wednesday 1 June 2005 at 09:00 in the CR Louw Auditorium, Sanlam Head Office, 2 Strand Road, Bellville (the Meeting) for the following purposes:

1. To consider and adopt the annual financial statements of the Group and the Company for the year ended 31 December 2004.

2. To re-appoint the external auditors of the Company.

3. To re-elect the following retiring directors* appointed by the board of directors of the Company (the Board) in casual vacancies or as additional directors in terms of article 13.2 of the Company's articles of association (the Articles), and who are eligible and offer themselves for re-election:

   RC Andersen

   MV Moosa

   M Ramos

4. To re-elect the following directors* of the Company, retiring by rotation in terms of article 14 of the Articles, and who are eligible and offer themselves for re-election:

   AS du Plessis

   CE Maynard

   PdeV Rademeyer

   GE Rudman

5. To authorise the Board to determine the remuneration of the external auditors.

6. To consider and approve the total amount of directors' remuneration for the year ended 31 December 2004.

**Brief curriculum vitae appear on page 22.*

7. To consider and approve, with or without modification, the remuneration of the non-executive directors for the period 1 January 2005 up to 30 June 2006:

   a) The chairman: An all inclusive remuneration package of R1.2 million per annum (currently R750 000 per annum).

   b) The deputy chairman: A fixed fee of R240 000 per annum plus an attendance fee of R14 000 per board meeting (currently R240 000 and R10 000 respectively).

   c) Other directors: A fixed fee of R160 000 per annum plus an attendance fee of R14 000 per board meeting (currently R160 000 and R10 000 respectively). It should be noted that these fees were not increased in 2004. The last adjustment took effect on 1 January 2003.

   d) Board committees: A fixed fee of R44 000, R33 000 or R22 000 per annum, depending on the responsibilities and workload associated with the particular committee (currently R40 000 or R20 000). The fee for the chairman of a committee is double that of an ordinary committee member. These fees were not increased in 2004. The last adjustment took effect on 1 January 2003.

8. To consider and, if approved, to pass, with or without modification, the following ordinary resolution number 1:

   "Resolved that the authorised but unissued ordinary shares in the share capital of the Company, subject to a maximum of 275 million shares, be and are hereby placed at the disposal and under the control of the Board, and such directors are hereby authorised and empowered to allot, issue or otherwise dispose thereof to such person or persons and on such terms and conditions as the directors may from time to time determine, but subject to the provisions of the Companies Act, No 61 of 1973, as amended (the Companies Act), the requirements of the JSE Securities Exchange South Africa (the JSE) and any other Stock Exchange upon which the shares of the Company may be quoted or listed from time to time."

9. To consider and, if approved, to pass, with or without modification the following ordinary resolution number 2:

   "Resolved that, subject to the passing of ordinary resolution number 1, the Board be and they are hereby authorised to:

   a) implement a Broad Based Employee Share Plan as contemplated in Section 8B of the Income Tax Act (BBE Share Plan),

   b) subject to the limitations set out below in the reason for and the effect of this ordinary resolution number 2, allot and issue a maximum of 5 million ordinary shares with a par value of R0,01 each in the Company and on such terms, as may be appropriate, pursuant to the introduction of the BBE Share Plan, and

   c) subject to the limitations set out below in the reason for and the effect of this ordinary resolution number 2, to impose such other terms and conditions to the BBE Share Plan as the Board in their sole discretion deem appropriate."

   The reason for and effect of ordinary resolution number 2, is to enable the Company to implement a so-called BBE Share Plan for employees who do not participate in the existing Share Incentive Scheme. The BBE Share Plan has to comply with the requirements of Section 8B of the Income Tax Act. This section prescribes the following limitations to a BBE Share Plan:

   - the Company must offer participation in the BBE Share Plan to at least 90% of the Company's employees permanently employed on a full-time basis for at least 1 year and who do not participate in any other equity scheme of the Company (Participating Employees);
   - the Company will offer such ordinary shares at the par value of R0,01 each in the Company to Participating Employees (Plan Shares);
   - the value of the total number of Plan Shares received by any Participating Employee may not exceed R9 000 during any 3 year period;
   - Participating Employees must receive full voting and dividend rights in the Plan Shares;
   - the Plan Shares will not be subject to any disposal restrictions other than one or more of the following:
     - disposal restrictions imposed by legislation outside the Company's and the Participating Employees' control;
     - an entity constituted to administer the BBE Share Plan retaining the right to acquire the Plan Shares at market value; and
     - the Company restricting the Participating Employee's right to dispose of his or her Plan Shares for a period not exceeding 5 years from date of grant.

   If the offer of Plan Shares complies with section 8B of the Income Tax Act, the Company will qualify for an income tax deduction. The Participating Employee will only be subject to Capital Gains Tax on any gain on the Plan Shares, if such shares are realised after five years from the date of grant. Should the shares be sold within the five year period, the Participating Employee will be subject to normal income tax on the gain.

10. To consider and, if approved, to pass, with or without modification, the following special resolution number 1:

    "Resolved that the boards of directors of the Company and any subsidiary of the Company be authorised by way of a general authority, up to and including the date of the following annual general Meeting of the Company, to approve:

a) the purchase of any of its securities by the Company or its subsidiaries, including ordinary shares of R0,01 each in the capital of the Company; and

b) the purchase of such securities by the Company in any holding company of the Company, if any, and any subsidiary of any such holding company,

subject to the provisions of the Companies Act and the requirements of the JSE and any other Stock Exchange upon which the shares of the Company may be quoted or listed from time to time, and subject to such other conditions as may be imposed by any other relevant authority, provided that:

- the general authority shall only be valid until the Company's next annual general meeting, provided that it does not extend beyond 15 months from the date of this resolution;
- the general authority to repurchase be limited to a maximum of 10% of the relevant company's issued share capital of that class at the time the authority is granted; and
- repurchases must not be made at a price more than 5% above the weighted average of the market value of the securities for the five business days immediately preceding the date of the repurchases."

The reason for and effect of special resolution number 1 is to grant the directors a general authority to enable the Company to acquire shares which have been issued by it, or its holding company, if any, and any subsidiary of any such holding company.

Statement of intent:

The Board shall implement a general repurchase of the Company's shares, only if prevailing circumstances (including the tax dispensation and market conditions) warrant same, and should the Board be of the opinion, after considering the effect of such repurchase of shares, that the following requirements have been and will be met:

- the Company will be able to pay its debts in the ordinary course of business;
- the consolidated assets of the Company, fairly valued in accordance with Generally Accepted Accounting Practice, are in excess of the consolidated liabilities of the Company;
- the Company will have adequate capital; and
- the working capital of the Company will be sufficient for the Company's requirements for the year ahead.

General Notes:

1. A member entitled to attend and vote at the Meeting may appoint a proxy to attend, speak and vote in his or her stead.

2. Sanlam shareholders who hold share certificates for their Sanlam ordinary or Sanlam 'A' deferred shares or have dematerialised their Sanlam ordinary shares and have them registered in their own name or in the name of Sanlam Share Account (Proprietary) Limited or Sanlam Fundshares Nominee (Proprietary) Limited, but who are unable to attend the Meeting and wish to be represented thereat, should **complete and return the enclosed form of proxy,** in accordance with the instructions contained therein, **to the transfer secretaries, Computershare Investor Services 2004 (Proprietary) Limited, Ground Floor, 70 Marshall Street, Johannesburg, 2001 (Private Bag X105, Marshalltown, 2107).** The form of proxy must be received by **not later than 09:00 on Monday, 30 May 2005.**

3. Sanlam ordinary shareholders who hold their dematerialised Sanlam ordinary shares through a bank or broker nominee and wish to cast their votes at this Meeting or wish to attend the Meeting in person, must contact their bank or broker.

4. A person representing a corporation/company is not deemed to be a proxy as such corporation/company can only attend a meeting through a person, duly authorised by way of a resolution to act as representative. A notarially certified copy of such power of attorney or other documentary evidence establishing the authority of the person signing the proxy in a representative capacity must be attached to the proxy form. Such person enjoys the same rights at the Meeting as the shareholding corporation/company.

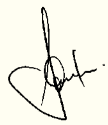
5. A member whose shares are held by Sanlam Share Account or Sanlam Fundshares Nominee is empowered by such relevant nominee company to act and vote at the Meeting.

6. On a show of hands, every shareholder present in person or every proxy representing shareholders shall have only one vote, irrespective of the number of shares he/she holds or represents.

7. On a poll, every shareholder present in person or represented by proxy shall have one vote for every Sanlam share held by such shareholder.

8. A resolution put to the vote shall be decided on a show of hands unless, before or on the declaration of the results of the show of hands, a poll shall be demanded by any person entitled to vote at the Meeting. If a poll is so demanded, the resolution put to the vote shall be decided on a poll.

By order of the Board



JP BESTER

Company Secretary

Bellville

7 March 2005

ANALYSIS OF SHAREHOLDERS

on 31 December 2004

	Total shareholders		Total shares held	
	Number	%	Number	%
Distribution of shareholding				
1 – 1 000	545 626	82,96	223 184 630	8,06
1 001 – 5 000	98 516	14,98	196 324 481	7,09
5 001 – 10 000	8 677	1,32	59 486 193	2,15
10 001 – 50 000	3 738	0,57	65 761 809	2,38
50 001 – 100 000	264	0,04	19 088 611	0,69
100 001 – 1 000 000	621	0,09	219 763 636	7,94
1 000 000 and over	255	0,04	1 983 961 307	71,69
Total	657 697	100,00	2 767 570 667	100,00

	% Shareholding
Public and non-public shareholders	
Public shareholders (number of shareholders: 657 682)	99,48
Non-public shareholders	
• Directors' interest	0,03
• Employee pension fund	0,24
• Sanlam Limited Share Incentive Trust	0,25
Total	**100,00**

	% Shareholding
Shareholder structure	
Institutional and other shareholding	
• Offshore	24,40
• South Africa	57,48
Individuals	18,04
Demutualisation Trust	0,08
Total	**100,00**

Holdings of five per cent or more:	%
• Public Investment Commissioner (SA)	11,89
• Ubuntu-Botho Investments (Pty) Limited	8,17

SHAREHOLDERS' DIARY

Financial year-end	31 December
Annual general meeting	1 June 2005

Reports

• Interim report for 30 June 2005	September 2005
• Announcement of the results for the year ended 31 December 2005	March 2006
• Annual report for year ended 31 December 2005	April 2006

Dividends

• Dividend for 2004 declared	2 March 2005
• Last date to trade for 2004 dividend	15 April 2005
• Shares will trade ex-dividend from	18 April 2005
• Record date for 2004 dividend	22 April 2005
• Payment of dividend for 2004	18 May 2005
• Declaration of dividend for 2005	March 2006
• Payment of dividend for 2005	May 2006

To allow for the dividend calculation, Sanlam's share register (including Sanlam's two nominee companies namely Sanlam Share Account (Pty) Ltd and Sanlam Fundshares Nominee (Pty) Ltd) will be closed for all transfers, off-market transactions and de- or rematerialisations between 11 April 2005 and 22 April 2005, both dates included.

Transactions on the JSE via STRATE are not affected by this arrangement.

ADMINISTRATION

Sanlam Limited

Registration no 1959/001562/06
Incorporated in South Africa

Sanlam Life Insurance Limited

Registration no 1998/021121/06

Group Secretary

JP Bester

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Transfer Secretaries

Computershare Investor Services 2004 (Proprietary) Limited
Registration no 2004/003647/07

70 Marshall Street
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