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SANLAM GROUP

Registered name: Sanlam Limited
(Registration number 1959/001562/06)
JSE share code: SLM
ISIN number: ZAE000028262

Results for the six months to 30 June 2003

Highlights

- Business flows
  - New business inflows up 23%
  - Strong growth in segregated investment inflows
  - Net cash inflow of R558 million
- Earnings
  - Operating profit up 13%
  - Headline earnings up 30%
  - LTRR adjusted earnings up 8%
- Good progress on strategic initiatives

Sanlam delivered strong growth in both operating and headline earnings for the six months to June 2003. This was due to a satisfactory operational performance from most of the Group's businesses together with a substantial increase in the contribution from Absa. The adverse impact of market conditions on life insurance inflows was balanced by a significant improvement in investment fund inflows.

Looking forward, lower interest rates should have a positive impact on the demand for equities and contribute to an improvement in the overall business environment. Lower short-term interest rates will, however, have a negative impact on interest linked operating and investment income for the remainder of the year. While no material improvement is therefore expected in the Group's results for the second half of 2003, management remains confident that its renewed operational focus will unlock the value inherent in the Group and achieve sustainable profitable growth going forward.

SALIENT FEATURES		Six months unaudited		Full year
		2003	2002	2002
Operating results:				
Operating profit before tax	R million	**1 222**	1 085	2 149
Headline earnings [(1)]	R million	**1 373**	1 053	2 280
Adjusted headline earnings based on the LTRR[(2)]	R million	**1 681**	1 554	3 227
Net operating profit per share	cents	**28,7**	28,1	56,3
Headline earnings per share	cents	**52,1**	39,9	86,7
Adjusted headline earnings per share based on the LTRR [(2)]	cents	**63,8**	58,9	122,7
Group administration cost ratio [(3)]	%	**31,8**	34,0	34,4
Group operating margin [(4)]	%	**18,2**	18,0	17,0
Business volumes:				
New business volumes	R million	**18 234**	14 816	32 257
Net funds flow	R million	**558**	(1 326)	(3 934)
Embedded value of new life business	R million	**100**	146	320
Life insurance new business APE [(5)]	R million	**832**	1 032	2 179
New business embedded value margin	%	**12,0**	14,1	14,7
Embedded value:				
Embedded value per share	cents	**1 023**	1 094	1 032
Growth from life business[(6)]	%	**13,9**	12,6	12,7
Return on embedded value [(7)]	%	**5,4**	(7,2)	(8,9)

Notes

(1) Headline earnings = net operating profit and investment income.
(2) Adjusted headline earnings based on the LTRR = net operating profit and total investment return based on a long-term rate of return.
(3) Administration costs as a percentage of income earned by the shareholders' funds less sales remuneration.
(4) Operating profit as a percentage of income earned by the shareholders' funds less sales remuneration.
(5) APE = Annual premium equivalent and is equal to new recurring premiums (excluding indexed growth premiums) plus 10% of single premiums.
(6) Returns for six months are annualised.
(7) Growth in embedded value (with dividends paid added back) as a percentage of embedded value at the beginning of the year. Returns for six months are annualised.

EXECUTIVE REVIEW

Performance in the first six months of 2003

The business environment remained difficult throughout the first six months of 2003 as declining equity markets, currency volatility and uncertain market sentiment persisted. Against this background it is gratifying to report a **30% increase to 52,1 cents per share** in the Group's **Headline Earnings**.

Group operations recorded a 13% improvement in gross operating results for the period. Most notable is the more than doubling of Santam's contribution and a 61% improvement in Gensec Bank's results. In addition the results were boosted by a strong improvement in investment income, which was particularly enhanced by a substantial increase in equity-accounted earnings from the Group's investment in Absa. Headline earnings based on a 12% long-term rate of investment return, improved by 8%.

New business inflows improved by 23% on the back of a strong recovery in segregated investment inflows. New inflows were inhibited by market conditions. Poor equity market performance caused investor dissatisfaction with equities as an asset class, and a strong preference for liquidity and cash based products. This trend, coupled with the attraction of relatively high short-term interest rates, was evident in record levels of money market inflows in the unit trust industry. The inverse yield curve that prevailed throughout the period impacted negatively on the attractiveness of longer-term returns offered by Life products such as term annuities and guaranteed return products.

The focus of **Sanlam Investment Management** ('SIM') is on delivering sustained competitive investment results. It is therefore encouraging to note a further improvement in SIM's position in both the domestic and global Alexander Forbes Large Manager Watch Ranking. On a year on year basis SIM improved to 5 out of 10 on both the global and domestic manager watch. The calendar year to 31 July 2003 confirms this improvement with SIM ranking 3rd and 4th in the respective surveys. The SIM Unit Trust performance measured over a 12-month period through the Plexus Survey has improved from 24 out of 26 management companies a year ago, to 8 out of 22 at the end of June 2003. Strong growth in investment fund inflows during the first half of 2003 is largely due to the improvement in SIM's investment management rating.

New Life inflows were severely affected by the lower demand for contractual savings products, and single premium Life products in particular. This impacted negatively on **Sanlam Life's** fund flows, new business embedded value margin and embedded value. However, despite the disappointing new business volumes, the most recent Life Office Association statistics indicate market share gains for Sanlam Life. Sanlam Life's strategy for sustained performance improvement is based on an increase in new Life inflows through meeting the changing product and service needs of clients, while at the same time focusing on cost-efficient distribution and support structures. Good progress has been made in the first six months of 2003 to address several identified focus areas:

- Sanlam Life recently announced the appointment of Themba Gamedze as Chief Executive of the Employee Benefits (EB) division. This appointment follows a decision to improve operational focus and delivery in EB, refocusing it as a major growth area in the Group's Life business;
- The revised strategy to improve Sanlam's visibility and accessibility is progressing well. Thirty-nine new service centres were opened or upgraded during the six months.

These centres provide cost effective contact and service facilities for clients and intermediaries;

- Sanlam Life's focussed distribution through market segmentation is being further developed through an optional group scheme business (to be launched in October 2003); and
- Sanlam Life has embarked on a comprehensive business wide re-engineering programme aimed at reducing costs by in excess of R250 million in the 2004 financial year.

Strategic Focus

In May 2003, Sanlam announced new operational structures as part of the Group's strategy of improving operational focus and delivery. As part of the restructuring, the Group has been aligned into four clusters, namely life assurance, short-term insurance, investment and banking. Each cluster operates autonomously with set targets and is headed by an executive with strong operational experience.

The group also announced the restructuring of its international business, Sanlam Financial Services (SFS) and Gensec Bank in August, while detail on an agreed co-operation with Absa was announced in September 2003.

International Business

In terms of the restructuring agreement, SFS will transfer responsibility for the South African sourced international funds (approximately R18 billion) that it managed through io investors to a new wholly-owned offshore business unit in the investment cluster, Sanlam Multi-Manager International (SMMI). io investors will continue to focus on specialised investment products and solutions for the non-South African market. At the same time Sanlam will reduce its interest in the remaining SFS business to 60%.

On a group level, Sanlam will continue to move away from a centralised approach to internationalisation, with each of the clusters developing and expanding its own international activities. This will allow each cluster to continue leveraging existing operational strengths to provide cost-effective, relevant product and service offerings.

Gensec Bank

The restructuring of Gensec will refocus the bank around the areas that are complementary and value enhancing to Sanlam's current businesses. These core activities will be grouped in a new entity, Sanlam Capital Markets that will capitalise on the potential of a centralised treasury, structured products and brokerage capability to serve the Group's clients.

Non-core investment banking activities will be terminated during the process of restructuring, while certain long-term investments and activities will initially be retained, but not expanded. Certain of these activities, such as the investment banking business, may be offered to Absa in line with the aims of the co-operation agreement signed by Sanlam and Absa.

This restructuring and increased focus on the core business areas of risk management solutions and associated capital market activities, will enhance operational performance, optimise return on capital and allow more effective redeployment of capital.

Absa relationship

Satisfactory progress has been made on formalising closer cooperation with **Absa**. A formal agreement has been entered into with Absa Brokers on dedicated support, training and service structures that will aid in Sanlam regaining a meaningful share of Absa Brokers' sales volumes. Other areas of co-operation are being pursued.

Outlook for the rest of 2003

Looking forward, lower interest rates should have a positive impact on the demand for equities and contribute to an improvement in the overall business environment. Lower short-term interest rates will, however, have a negative impact on interest linked operating and investment income for the remainder of the year. The restructuring of Gensec Bank will result in a lower contribution from that source for the rest of the year. Management remains confident that its renewed operational focus will unlock the value inherent in the Group and achieve sustainable profitable growth going forward.

Directorate

Changes to the operating structures brought about adjustments to the board membership of Sanlam. Lizé Lambrechts (Life cluster), Johan van der Merwe (Investment cluster) and Steffen Gilbert (Short-term insurance cluster) joined the board as alternate directors. Chris Swanepoel retains his position on the executive committee, but stepped down as an alternate director of the board to enhance his independence as statutory actuary. Charl le Roux, an executive director, and Bonang Mohale, an alternate director, both left the board and the Group to pursue other interests. Angus Samuels and Marius Ferreira resigned as alternate directors. The board also accepted the resignation of non-executive director Thulani Gcabasche during the period. We thank the outgoing board members for their contribution during their tenure.

Ton Vosloo	Johan van Zyl
Chairman	Group Chief Executive

Sanlam Limited
Cape Town
3 September 2003

COMMENTS ON INTERIM RESULTS TO JUNE 2003

Headline earnings

*As from 2002, following various directives issued by the JSE in this regard, we publish two Headline Earnings figures. The **headline earnings** used for JSE record purposes combine net operating profit and investment income (including equity-accounted earnings). In addition, we also provide an **adjusted headline earnings figure based on the long-term rate of return (LTRR)** that includes net operating income and an assumed investment return (income and market movement) based on an expected LTRR of 12% (2002: 13%) pre-tax. The rate is reviewed annually and is linked to the long bond yield. The investment return is determined by applying the long-term rate of return to the monthly average market value of the shareholder fund's balanced investment portfolio.*

Headline earnings of **R1 373 million (52,1cps)** recorded for the six months **are 30% up on 2002**. The improvement on 2002 is the combined effect of a positive operating variance and a major increase in investment income, particularly equity-accounted earnings. Equity-accounted earnings substantially represents the income earned on the shareholders' fund's investment in Absa. The increase over 2002 is due to a strong increase in Absa's underlying operating results and the one-off negative effective impact of R189 million that Unifer had on the results recorded for Absa in the 2002 results.

	Six months to June		
R million	**2003**	2002	
Net operating income	**756**	742	2%
Investment income	**617**	311	98%
Equity-accounted earnings	**375**	94	299%
Other investment income	**242**	217	12%
HEADLINE EARNINGS	**1 373**	1 053	30%
Net operating income	**756**	742	2%
Investment return (LTRR)	**925**	812	14%
LTRR ADJUSTED EARNINGS	**1 681**	1 554	8%

Headline earnings adjusted for the long-term investment return assumption at **63,8cps (R1 681 million), is 8% higher than 2002**. The growth in the long-term investment return was aided by the one-off Absa effect above and negatively impacted by the reduction in the long-term return rate used (from 13% to 12%) and the effect of lower equity markets on the asset base.

Business volumes

Overall new business inflows for the six months **increased by R3,4 billion (23%) over 2002**. A major improvement in investment fund inflows and short-term insurance premiums was somewhat offset by disappointing new Life business inflows.

Inflows per product type

R million	Six months to June 2003	2002	
Life Business	**4 884**	6 446	-24%
Individual recurring	**717**	690	4%
Individual single & continuations	**2 528**	3 654	-31%
Group	**1 066**	1 466	-27%
Namibia & Innofin	**573**	636	-10%
Investment	**10 272**	5 802	77%
Short-term insurance	**3 078**	2 568	20%
New business inflows	**18 234**	14 816	23%
Total inflows	**23 134**	19 666	18%
Life business APE	**832**	1 032	-19%
New business embedded value	**100**	146	-32%
Embedded value margin	**12.0%**	14.1%	

In a major recovery, investment fund inflows exceeded the 2002 volumes by 77%. This was mainly the result of a substantial improvement in local and offshore segregated fund inflows – albeit from a low base. Sanlam Collective Investments and Innofin both attracted strong money market inflows, which is in line with the current market preference for cash and liquid investments. Santam performed exceptionally well and grew its premium inflow (net of reinsurance premiums) by 20%.

Lower levels of Individual Life single premium business are being experienced throughout the industry, as is reflected in the latest Life Office Association market share statistics. Notwithstanding very disappointing new business results, Sanlam's market share of Individual Life single premium business increased in the first quarter of 2003 to 24,6% from 22,7% in the last quarter of 2002. Sanlam's new Life inflows were down 24% on the first six months of 2002, mainly due to a sharp fall in both Group and Individual Life single premium inflows. Market conditions played a major role in these results. A lack of investor equity risk appetite was aggravated by the impact of the inverse yield curve as the terms offered on certain single premium products, such as term annuities and guaranteed return products, could in many instances not match the current high short-term interest rates.

Due to the weaker sales volumes recorded for the period, the embedded value of the new Life business for the six months amounted to **R100 million,** 32% down on 2002. The new business margin consequently deteriorated from 14,1% to 12,0%.

A net inflow of **R558 million** was recorded for the first six months of 2003 compared to the net outflow of R1 326 million in 2002. The turnaround can largely be ascribed to the R2,2 billion improvement in SIM segregated fund and unit trust net flows. The lower Life inflows had a major negative impact on overall net cash flows. The increase in Group business and Individual Life outflows was, however, contained to only 3%, compared to the first six months of 2002. This is notwithstanding a one-off outflow of R1,4 billion relating to the maturity of a single corporate policy.

Operating profit

Group operating profit for the six months of **R1 222 million is 13% up on 2002.**

Operating results have been restated to be in line with the new business clusters and reflect the transfer of Innofin and Sanlam Collective Investments from Sanlam Life to SIM and certain corporate activities to Sanlam Life. The International numbers reflect the structure as at 30 June 2003, before the implementation of the recently announced restructuring and integration of the business into other clusters.

	Six months to June		
R million	**2003**	2002	
Sanlam Life	**740**	730	1%
Santam	**281**	127	121%
Gensec Bank	**82**	51	61%
SIM	**124**	117	6%
International	**7**	69	-90%
Other	**50**	56	-11%
	1 284	1 150	12%
Corporate expenses	**(62)**	(65)	5%
Gross operating profit	**1 222**	1 085	13%

The reduction in **Sanlam Life**'s new business volumes for the year to date did not have a material impact on profit for the six months. This is as a result of its deferred profit recognition practice followed in respect of Life products. The positive variance compared with 2002 is due to a combination of an increase in underwriting profit and net interest earned on working capital (due to higher interest rates) and the containment of cost. Total administration expenses remained unchanged compared to the first half of 2002.

Santam performed exceptionally well. The management of claims and reinsurance, return on operating cash, and a sound maiden contribution from their UK acquisition, all contributed to a profit of R281 million. This more than doubled their contribution to Group operating profit compared to the first six months of 2002.

Notwithstanding the negative impact on revenue of lower assets under management, the investment cluster (**SIM**) reported a 6% increase in operating profit. Positive growth contributions from Property Asset Management, Tasc and Sanlam Collective Investments were somewhat offset by a reduction in the profit contributed by the wholesale asset management business.

The half-year profit contribution of R82 million from **Gensec Bank** is a substantial improvement of 61% on their 2002 results. The bank's local operations performed exceptionally, in particular in the debt and fixed interest areas. The performance of the Fieldstone operations, however, has been poor as a result of limited transaction fee inflows.

Sanlam's **international** business, SFS, did not achieve the growth in fee income from assets under management required to offset the substantial increase in its capacity and cost base during 2002. Their results, in particular asset management, brokerage and private client business, were affected by lower fee income as a result of the impact of weaker markets on the level of investments under management. This is due to both the distressed equity markets as well as low new business volumes. The 13% strengthening in the R/$ exchange rate aggravated the impact and resulted in a 90% reduction in profit. The recent restructuring of this business should improve performance going forward.

The operating margin of 18,2% for the six months shows a marginal improvement on the 18,0% for 2002 – mainly through the containment of the increase (4%) in the Group's **administration expenditure**. With the exception of Santam, where the increase in expenses was substantially offset by an increase in income, as well as the international business, where costs were incurred since June 2002 in building capacity, all businesses managed to keep expenditure approximately at the same level as in the first half of 2002.

Goodwill impairment

As part of the recently announced restructuring of the activities of Gensec Bank, the carrying value of certain of its major investments was reviewed. Due to an unsatisfactory performance to date from the investment in Fieldstone, the carrying value of that investment (R131 million) was provided for in full. The fair value of the Bank's exposure to the Safair Lease Financing joint venture was also reassessed and written down by R100 million.

Solvency

The capital of Sanlam Life increased marginally to R17,5 billion at the end of the period and CAR (Capital Adequacy Ratio) cover amounted to 1.9 at the end of June 2003, compared to 1.7 at the end of December 2002.

A prudent valuation of certain smoothed bonus policyholder portfolios in terms of prevailing actuarial guidelines resulted in the shareholders' fund providing financial assistance of R290 million (2002 full year: R153 million) to these portfolios. This assistance will be repayable should the funding position recover sufficiently. Full provision has been made for this assistance against the investment return for the shareholders' fund.

Embedded value

Sanlam's embedded value amounted to R26,8 billion (1 023cps) at the end of June 2003, marginally down on the R27,1 billion (1 032cps) at the end of December 2002.

The Group accepted return on embedded value as a primary performance measure. This takes account of both the return earned on capital employed and the growth in the value of the Life company's in-force book of business. A target has been set to outperform the 10-year bond yield by between 3% and 4% per annum on a sustained basis.

Taking into account the dividend of R972 million paid during the period, the net growth on the December 2002 embedded value balance amounted to R726 million (5,4% annualised).

This return was negatively impacted by the prevailing market conditions. The value of Sanlam Life's in-force book of business amounted to R6,7 billion, after taking into account the cost of capital at risk (R1,4 billion). Annualised growth from life business, based on the starting value of the in-force life business, amounted to 13,9%. [Deleted rest]

Contingency

Shareholders are referred to the note in the 2002 Annual Report on the potential tax liability of a subsidiary of Gensec. This matter is still being pursued with the revenue authorities.

Dividend

As standard practice, Sanlam only declares an annual dividend at year-end. Therefore no interim dividend has been declared.

GROUP INCOME STATEMENT

	Note	Six months unaudited 2003 R million	Six months unaudited 2002 R million	Full year 2002 R million
FUNDS RECEIVED FROM CLIENTS	1	**23 134**	19 666	42 098
Financial services income		**7 673**	6 929	14 531
Sales remuneration		**(959)**	(896)	(1 863)
Income after sales remuneration		**6 714**	6 033	12 668
Underwriting policy benefits		**(3 354)**	(2 895)	(6 162)
Administration costs		**(2 138)**	(2 053)	(4 357)
Operating profit before tax	4	**1 222**	1 085	2 149
Tax on operating profit	5	**(354)**	(279)	(549)
Operating profit from ordinary activities after tax		**868**	806	1 600
Minority shareholders' interest		**(112)**	(64)	(118)
NET OPERATING PROFIT		**756**	742	1 482
Net investment income		**242**	217	402
Investment income	6	**370**	325	620
Tax on investment income	5	**(77)**	(63)	(110)
Minority shareholders' interest		**(51)**	(45)	(108)
Net equity-accounted earnings		**375**	94	396
Equity-accounted earnings		**467**	47	471
Tax on equity-accounted earnings	5	**(92)**	47	(75)
HEADLINE EARNINGS		**1 373**	1 053	2 280
Net investment surpluses (1)		**(49)**	(1 194)	(2 621)
Investment surpluses	6	**(52)**	(1 289)	(2 822)
Tax on investment surpluses		**-**	87	177
Minority shareholders' interest		**3**	8	24
Impairment of investments and goodwill		**(231)**	-	-
Amortisation of goodwill		**(150)**	(129)	(259)
ATTRIBUTABLE EARNINGS		**943**	(270)	(600)
Diluted earnings per share (cents):				
• **Net operating profit from ordinary activities**		**28,7**	28,1	56,3
• **Headline earnings**		**52,1**	39,9	86,7
• **Attributable earnings**		**35,8**	(10,2)	(22,8)
Adjusted weighted average number of shares (million)		**2 634**	2 639	2 631
ADJUSTED HEADLINE EARNINGS based on the LTRR (R million)		**1 681**	1 554	3 227
Adjusted headline earnings based on the LTRR (cents per share)		**63,8**	58,9	122,7

(1) Upon the introduction of AC133, investments were classified as available-for-sale and Sanlam elected to take unrealised investment surpluses directly to equity. In terms of the requirements of AC133, prior year results were not restated.

GROUP BALANCE SHEET

	June unaudited		December
	2003	2002	2002
	R million	R million	R million
ASSETS			
Non-current assets			
Fixed assets	**289**	263	260
Owner-occupied properties	**353**	381	381
Goodwill	**1 840**	2 014	1 992
Investments	**146 721**	157 438	149 276
Deferred tax	**189**	125	237
Short-term reinsurance provisions	**1 945**	1 576	2 072
Current assets			
Trade and other receivables	**21 179**	20 223	16 614
Cash, deposits and similar securities	**12 217**	8 895	12 725
Total assets	**184 733**	190 915	183 557
EQUITY AND LIABILITIES			
Shareholders' funds	**20 208**	20 984	20 651
Minority shareholders' interest	**1 625**	1 636	1 624
Non-current liabilities			
Long-term policy liabilities	**126 050**	137 723	129 329
Insurance contracts	**88 456**		
Investment contracts	**37 594**		
Term finance	**4 951**	5 131	5 382
Deferred tax	**37**	277	35
Short-term insurance provisions	**4 580**	3 199	4 226
Current liabilities	**27 282**	21 965	22 310
Total equity and liabilities	**184 733**	190 915	183 557
Segregated funds not included in the above balance sheet	**65 869**	68 396	62 396
Total assets under management and administration	**250 602**	259 311	245 953
Tangible net asset value per share (cents) - group businesses valued at fair value	**787**	861	798

GROUP STATEMENT OF CHANGES IN EQUITY

	Six months unaudited		Full year
	2003	2002	2002
	R million	R million	R million
Shareholders' funds at beginning of year	**20 651**	22 231	22 231
Attributable earnings	**943**	(270)	(600)
Dividends paid	**(972)**	(921)	(921)
Movement in treasury shares acquired	**5**	(56)	(59)
Unrealised investment surpluses[1]	**(384)**	-	-
Unrealised investment surpluses	**(342)**	-	-
Tax on investment surpluses	**(69)**	-	-
Minority shareholders' interest	**27**	-	-
Foreign currency translation differences	**(29)**	-	-
Adoption of AC133[2]	**(6)**	-	-
Shareholders' funds at end of period	**20 208**	20 984	20 651

(1) Upon the introduction of AC133, investments were classified as available-for-sale and Sanlam elected to take unrealised investment surpluses directly to equity. In terms of the requirements of AC133, prior year results were not restated.

(2) The adoption of AC133 by Gensec Bank in 2003 resulted in the revaluation of instruments at the beginning of the year with a consequent restatement to opening retained income.

CASH FLOW STATEMENT

	Six months unaudited		Full year
	2003	2002	2002
	R million	R million	R million
Net cash inflow from operating activities before dividends paid	**1 177**	23	4 113
Dividends paid	**(972)**	(921)	(921)
Net cash outflow from investment activities	**(332)**	(698)	(1 130)
Net cash (outflow)/inflow from financing activities	**(381)**	182	354
Net (decrease)/increase in cash and cash equivalents	**(508)**	(1 414)	2 416
Cash, deposits and similar securities at beginning of period	**12 725**	10 309	10 309
Cash, deposits and similar securities at end of period	**12 217**	8 895	12 725

NOTES TO THE FINANCIAL STATEMENTS

	Six months unaudited		Full Year
	2003	2002	2002
	R million	R million	R million
1. FUNDS RECEIVED FROM CLIENTS			
Life insurance	**4 884**	6 446	13 123
Investments	**10 272**	5 802	13 586
Short-term insurance	**3 078**	2 568	5 548
Total new business	**18 234**	14 816	32 257
Recurring premiums on existing business	**4 900**	4 850	9 841
Total funds received from clients	**23 134**	19 666	42 098
Life insurance annual premium equivalent	**832**	1 032	2 179
2. PAYMENTS TO CLIENTS			
Life insurance	**13 808**	13 925	27 896
Investments	**6 610**	5 260	14 211
Short-term insurance	**2 158**	1 807	3 925
Total payments to clients	**22 576**	20 992	46 032
3. NET FLOW OF FUNDS			
Life insurance	**(4 024)**	(2 629)	(4 932)
Investments	**3 662**	542	(625)
Short-term insurance	**920**	761	1 623
Total flow of funds	**558**	(1 326)	(3 934)
4. ANALYSIS OF OPERATING PROFIT			
Sanlam Life	**740**	730	1 451
Sanlam Investment Management	**124**	117	243
International	**7**	69	75
Gensec Bank	**82**	51	112
Santam	**281**	127	257
Gensec Properties	**8**	7	24
Corporate income	**42**	49	101
Corporate costs	**(62)**	(65)	(114)
Total operating profit	**1 222**	1 085	2 149

NOTES *(continued)*

	Six months unaudited 2003 R million	2002 R million	Full year 2002 R million
5. INCOME TAX			
Operating profit	**354**	279	549
Current year	**354**	279	556
Prior year	**-**	-	(7)
Investment income	**77**	63	110
Current year	**77**	63	110
Prior year	**-**	-	-
Equity-accounted earnings	**92**	(47)	75
Investment surpluses	**-**	(87)	(177)
Investment surpluses – normal	**-**	34	15
Investment surpluses – capital gains tax	**-**	(121)	(182)
Investment surplus on investment in associated company – capital gains tax	**-**	-	(10)
Investment surpluses taken directly to equity	**69**	-	-
Investment surpluses – normal	**66**	-	-
Investment surpluses – capital gains tax	**3**	-	-
Income tax	**592**	208	557
6. ACTUAL INVESTMENT RETURN			
Investment income	**370**	325	620
Interest bearing investments	**179**	136	319
Equities	**154**	137	236
Properties	**37**	52	65
Investment surpluses	**(394)**	(1 289)	(2 822)
Realised and unrealised investment surpluses	**(578)**	(904)	(2 193)
Surplus/(deficit) on investment in associate company	**184**	(385)	(629)
Actual investment return	**(24)**	(964)	(2 202)

NOTES *(continued)*

7. SHAREHOLDERS' FUNDS BALANCE SHEET AT FAIR VALUE

(Group businesses listed below not consolidated, but reflected as investments at fair value)

	June unaudited 2003 R million	June unaudited 2002 R million	December 2002 R million
Assets			
Fixed assets	**134**	147	153
Owner-occupied properties	**333**	333	333
Investments			
Sanlam businesses	**5 471**	6 741	5 485
Investment Management[1]	**1 665**	2 072	1 587
International	**741**	1 516	1 071
Gensec Bank	**1 177**	1 255	1 186
Gensec Properties	**71**	84	60
Santam	**1 817**	1 814	1 581
Associated company – Absa	**4 545**	4 015	3 957
Other Investments			
Other equities	**5 164**	6 726	5 734
Public sector stocks and loans	**1 534**	1 607	1 611
Investment properties	**611**	835	659
Other interest bearing investments	**7 287**	6 599	6 859
Deferred tax	**-**	38	50
Current and other assets	**4 714**	4 131	5 028
Total Assets	**29 793**	31 172	29 869
Equity and liabilities			
Shareholders' funds	**20 658**	22 601	20 947
Term finance	**4 696**	4 450	4 581
Current and other liabilities	**4 439**	4 121	4 341
Total equity and liabilities	**29 793**	31 172	29 869

Excess of fair value over net asset value of businesses

The shareholders' funds balance sheet 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.

	June unaudited 2003 R million	June unaudited 2002 R million	December 2002 R million
Fair value of businesses (above)	**5 471**	6 741	5 485
Less: Tangible net asset value	**3 738**	3 646	3 820
Investment Management[1]	**354**	335	394
International	**415**	385	439
Gensec Bank	**1 376**	1 467	1 459
Gensec Properties	**51**	52	49
Santam	**1 542**	1 407	1 479
Less: Goodwill recognised in respect of above businesses	**1 283**	1 454	1 369
Deferred capital gains tax on investments at fair value	**-**	24	-
Revaluation adjustment of interest in businesses to fair value	**450**	1 617	296

(1) *Included in Investment Management are the values of Sanlam Investment Management, Sanlam Collective Investments and Innofin.*

NOTES *(continued)*

		June unaudited		December
		2003	2002	2002
		R million	R million	R million
8. ABRIDGED SHAREHOLDERS' FUNDS BALANCE SHEET – NET ASSET VALUE				
(All businesses consolidated at NAV)				
Assets				
Goodwill		**1 840**	2 014	1 992
Investments		**24 390**	24 065	24 026
Current and other assets		**31 747**	25 267	27 788
Total Assets		**57 977**	51 346	53 806
Equity and liabilities				
Shareholders' funds		**20 208**	20 984	20 651
Term finance, current and other liabilities		**37 769**	30 362	33 155
Total equity and liabilities		**57 977**	51 346	53 806
9. CAPITAL ADEQUACY AND RATIOS				
Shareholders' funds – Sanlam Life Insurance Limited		**17 484**	18 125	17 001
Capital adequacy requirements (CAR)		**9 050**	8 825	9 900
Times CAR covered by shareholders' funds	times	**1,9**	2,1	1,7
Shareholders' funds as percentage of				
Policy liabilities	%	**13,9**	13,2	13,1
Non-market-related policy liabilities		**20,2**	20,2	19,7

ACCOUNTING POLICIES AND ACTUARIAL BASIS

The accounting policies adopted for the purposes of the interim financial statements comply in all material respects with South African Statements of Generally Accepted Accounting Practice, specifically AC127 on interim financial reporting, and with applicable legislation. Apart from the adoption of AC133, these accounting policies are consistent with those of the previous year except where stated otherwise.

There were no material changes in the financial soundness valuation basis or embedded value calculation methodology since 31 December 2002.

CHANGES IN REPORTING STRUCTURES AND ACCOUNTING POLICIES

Following the restructuring of the Sanlam businesses into four distinct clusters, the results of Innofin and Sanlam Collective Investments (formerly Sanlam Unit Trusts) have been transferred from the Life cluster to the Investment cluster. Certain corporate functions were transferred into the businesses as part of the creation of a small streamlined central function.

Operating results of prior periods have been restated to reflect the above changes.

The adoption of *AC133 Financial Instruments: Recognition and Measurement* in the 2003 financial year resulted in certain changes in presentation for the Sanlam group:

- Sanlam Life has categorised its life policies between investment contracts, which fall within the scope of AC133, and insurance contracts.

  An insurance contract is a contract under which Sanlam accepts significant insurance risk by agreeing with the policyholder to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary. Insurance contracts fall outside the scope of AC133 and will continue to be valued on the current financial soundness valuation basis.

  Investment contracts are measured at fair value, as specified by AC133. Currently the financial soundness approach is considered to be an appropriate valuation model for investment contracts issued by long-term insurers. This is in accordance with interim solutions developed in conjunction with the South African Institute of Chartered Accountants, which are being implemented in order to limit significant temporary changes to the treatment of investment and insurance contracts within South Africa, while adhering to the principles of AC133.

  The liabilities under insurance and investment contracts are disclosed separately on the balance sheet.

  The migration to new International Financial Reporting Standards (IFRS) for insurers will last a number of years, as there is currently no such standard. The exposure draft on the first phase of the proposals for IFRS on insurance contracts was only recently issued. Future results may however be impacted, as the development of guidance for the long-term insurance industry, both from an accounting and actuarial perspective, is an ongoing process.

- Gensec Bank has revisited all financial instruments that were previously carried at historical or amortised cost (excluding instruments originated by the Bank) and for which the Bank does not have the intent and ability to keep to maturity. These will now be marked-to-market with the effective date being 1 January 2003. The net effect on implementation date is, in accordance with AC133, reflected as an adjustment to opening retained earnings for the year.

- Since the 2002 results we present two Headline earnings figures, the primary figure being based on operating profit and actual investment income earned for the period and the secondary being headline earnings adjusted for the long-term rate of return. The introduction of AC133 forced us to revisit the treatment of investment surpluses. In the past all investment surpluses were taken through the income statement. We have now classified all investments of the shareholders' portfolio as available-for-sale in terms of the standard and elected to take unrealised investment surpluses directly to equity. Realised investment surpluses will be recycled to the income statement, but do not form part of headline earnings.

ADJUSTED HEADLINE EARNINGS - LTRR

	June unaudited 2003 R million	June unaudited 2002 R million	December 2002 R million
The LTRR investment return is determined by applying the long-term expected return of 12 % (2002: 13%) to the average monthly shareholders' fund investments.			
Adjusted headline earnings – long-term rate of return (LTRR)			
Net operating profit	**756**	742	1 482
LTRR investment return	**925**	812	1 745
Net equity-accounted earnings	**375**	94	396
Investment return after taxation	**550**	718	1 349
Adjusted headline earnings – LTRR	**1 681**	1 554	3 227
Reconciliation of headline earnings and LTRR headline earnings			
Headline earnings per income statement	**1 373**	1 053	2 280
Net investment surpluses per income statement	**(49)**	(1 194)	(2 621)
Net unrealised investment surpluses taken directly to reserves	**(384)**	-	-
Net LTRR adjustment	**741**	1 695	3 568
Adjusted headline earnings – LTRR	**1 681**	1 554	3 227
Analysis of net LTRR adjustment			
Investment return	**821**	1 940	4 054
Equities	**710**	1 252	3 081
(Surplus)/deficit on investment in associated company	**(184)**	385	629
Interest bearing investments	**325**	279	301
Properties	**(30)**	24	43
Tax	**(5)**	(179)	(364)
Minority shareholders' interest	**(75)**	(66)	(122)
Net LTRR adjustment	**741**	1 695	3 568

ASSETS SUBJECT TO LTRR

	June unaudited 2003 R million	June unaudited 2002 R million	December 2002 R million
Investments per shareholders' funds balance sheet (per note 8)	**24 390**	24 065	24 026
Less : Investment in ABSA	**4 545**	4 015	3 957
Investments held in respect of term finance	**4 791**	4 266	4 731
Investments held in respect of banking activity	**1 508**	1 138	1 544
Other	**(38)**	78	199
Long-term rate of return investments	**13 584**	14 568	13 595

EMBEDDED VALUE

1. EMBEDDED VALUE

	June unaudited 2003 R million	June unaudited 2002 R million	December 2002 R million
Sanlam Group shareholders' funds at fair value (per note 7)	**20 658**	22 601	20 947
Adjustment for discounting capital gains tax[(1)]	**-**	37	-
Present value of strategic corporate expenses[(2)]	**(472)**	(733)	(600)
Sanlam Group shareholders' adjusted net assets	**20 186**	21 905	20 347
Net value of life insurance business in force	**6 655**	6 822	6 740
♦ Value of life insurance business in force	**8 010**	8 572	8 251
♦ Cost of capital at risk	**(1 355)**	(1 750)	(1 511)
Sanlam Group embedded value	**26 841**	28 727	27 087

2. EMBEDDED VALUE EARNINGS

	Six months unaudited 2003 R million	Six months unaudited 2002 R million	Full year 2002 R million
Embedded value from new life insurance business	**100**	146	320
Earnings from existing life insurance business	**579**	650	1 353
♦ Expected return	**527**	595	1 208
♦ Operating experience variations[(3)]	**110**	42	96
♦ Operating assumption changes	**(58)**	13	49
Embedded value earnings from life operations	**679**	796	1 673
Economic assumption changes	**114**	(48)	117
Tax changes	**23**	-	-
Investment variances (including change in long-term asset mix)[(4)]	**(363)**	(325)	(907)
Growth from life insurance business	**453**	423	883
Investment return on shareholders' adjusted net assets	**273**	(1 512)	(3 612)
Total embedded value earnings before dividends are paid	**726**	(1 089)	(2 729)
Dividends paid	**(972)**	(921)	(921)
Change in Sanlam Group embedded value	**(246)**	(2 010)	(3 650)
Growth from life insurance business as a % of beginning value of in-force	**13,9%***	12,6%*	12,7%

* annualised

EMBEDDED VALUE *(continued)*

3. NEW BUSINESS EMBEDDED VALUE	**Six months unaudited**		Full year
	2003	2002	2002
	R million	R million	R million
Value of new business			
Gross value of new business	**113**	171	365
Individual business	**98**	109	266
Group business	**15**	62	99
Cost of Capital at risk	**(13)**	(25)	(45)
Individual business	**(10)**	(7)	(19)
Group business	**(3)**	(18)	(26)
Net value of new business	**100**	146	320
Net value of new business as a percentage of the annual premium equivalent			
Annual Premium Equivalent (APE)(5)	**832**	1 032	2 179
Individual business	**694**	828	1 774
Group business	**138**	204	405
Net value of new business	**100**	146	320
Individual business	**88**	102	247
Group business	**12**	44	73
APE margin	**12,0%**	14,1%	14,7%
Individual business	**12,7%**	12,3%	13,9%
Group business	**8,7%**	21,6%	18,0%

4. SENSITIVITY	**R million**	**% Change from base**
Value of in-force business less cost of capital at risk		
Base value	6 655	
• Risk discount rate increases by 1,0% to 12,9%	5 921	(11%)
• Risk discount rate decreases by 1,0% to 10,9%	7 487	13%
Value of new business less cost of capital at risk		
Base value	100	
• Risk discount rate increases by 1,0% to 12,9%	81	(19%)
• Risk discount rate decreases by 1,0% to 10,9%	122	22%

5. METHODOLOGY

The embedded value methodology applied is consistent with the methodology used in the 31 December 2002 Embedded Value report. There were no material changes in the methodology used.

6. PRINCIPAL ASSUMPTIONS

Gross investment return and inflation

	June unaudited		December
	2003	2002	2002
	% p.a.	% p.a.	% p.a.
Fixed-interest securities	**9,4**	12,2	10,8
Equities and offshore investments	**11,4**	14,2	12,8
Hedged equities (6)	**8,4**	11,2	9,8
Property	**10,4**	13,2	11,8
Cash	**7,4**	10,2	8,8
Risk discount rate	**11,9**	14,7	13,3
Return on capital at risk (7)	**10,0**	13,1	11,9
Unit cost and salary inflation	**4,9**	7,7	6,3
Consumer price index inflation	**3,4**	6,2	4,8

Decrements, expenses and bonuses

Future mortality, morbidity and discontinuance rates and future expense levels were based on recent experience where appropriate.

Future rates of bonuses for traditional participating business, stable bonus business and participating annuities were set at levels that were supportable by the assets backing the respective product asset funds at the respective valuation dates.

Sanlam Life’s current surrender and paid-up bases were assumed to be maintained in the future.

HIV/Aids

Allowance was 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 latest proposed Professional Guidance Note (PGN) 105.

Premiums were 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.

Taxation

Projected corporate tax was allowed for at a rate of 30%. Allowance was made for capital gains tax. The assumed rollover period for realisation of investments is five years for property and equity assets supporting capital at risk and policy reserves. For strategic equity assets the assumed rollover period is ten years.

Allowance for secondary tax on companies was made by placing a present value on the tax liability generated by the net cash dividends paid that are attributable to the life company. It was assumed that over the long-term the proportion of cash dividends paid would fall to a level of 50% from the current 100% level.

Long-term asset mix for assets supporting the capital at risk

	June unaudited		December
	2003	2002	2002
	%	%	%
Equities	**42**	54	58
Hedged equities	**26**	18	18
Property	**8**	16	12
Fixed-interest securities	**20**	10	10
Cash	**4**	2	2
	100	100	100

	Six months unaudited		Full year
	2003	2002	2002
7. NEW BUSINESS PREMIUMS	**R million**	R million	R million
Financial statements			
New business premiums (per note 1)	**4 884**	6 446	13 123
Less: Premium increases (index growth)	**(305)**	(257)	(564)
Plus: Optional reduction in premiums	**17**	17	34
Less: Other life business[8]	**(633)**	(642)	(1 300)
Premiums used in the calculation of annual premium equivalent	**3 963**	5 564	11 293
New business embedded value premiums			
Recurring premiums	**484**	527	1 166
Single premiums	**3 479**	5 037	10 127
Premiums used in the calculation of annual premium equivalent	**3 963**	5 564	11 293

(1) *Adjustment to allow for the delay before incurring the capital gains tax liability included in the fair value.*

(2) *The June 2003 value was calculated by multiplying half the projected full year corporate expenses not related to life business (after tax) of R86 million by the share price of 700 cents and dividing by the headline earnings per share based on the long-term rate of return of 63,8 cents. The present value of strategic corporate expenses reduced by R128 million for the six months to 30 June 2003 of which R57 million is in respect of expenses absorbed by Sanlam Life.*

(3) *The main contributor to the operating experience variation was positive risk experience of R91million.*

(4) *The change in the long-term asset mix assumptions resulted in a decrease of R117 million.*

(5) *APE (annual premium equivalent) is equivalent to new recurring premiums plus 10% of single premiums. APE excludes life licence business.*

(6) *The assumed future return for these assets is lower than that of equities, which are not hedged, reflecting the cost of derivative instruments.*

(7) *The investment return on assets supporting the capital at risk is based on the long-term asset mix for these funds.*

(8) *The majority of profits in respect of these premiums accrue to Sanlam Investment Management and Innofin.*

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