



## Interim Results 2004

Thinking ahead  **Sanlam**

Registered name: Sanlam Limited  
(Registration number 1959/001562/06)

JSE share code: SLM  
NSX share code: SLA  
ISIN number: ZAE000028262

### Sanlam Group

## Interim Results for the six months ended 30 June 2004

### Highlights

#### Strong Earnings

Headline earnings per share up 29%

Core earnings per share up 15%

Result from operations before tax up 39%

- Solid performance by all operations
- Significant growth in contribution from Santam

#### Outstanding Business flows

Net fund inflow of R8 billion (R558 million for the first half of 2003)

Life new business inflows up 10% on 2003

Investment inflows up 77% to R18 billion

#### Embedded value

Embedded value of new Life business of R138 million – an increase of 29%

New business embedded value margin up from 12,1% to 15,0%

Annualised return on embedded value of 11,5% (5,4% in 2003)

*“We have achieved improved results across all of our operations by tackling factors that have undermined our performance and systematically realising the opportunities open to the Group.*

*“Going forward, we will continue to build profitable and diversified revenue streams and pursue the growth opportunities we have identified. We are confident of delivering additional cost savings, and expect further improvements from our restructured operations. We are a truly South African business best placed to align our offering to the changing product and service needs of clients in traditional and emerging markets.”*

| <b>SALIENT FEATURES</b>   |           | <b>Six months unaudited</b> |             | <b>Full year</b> |
|---|-----------|-----------------------------|-------------|------------------|
|   |           | <b>2004</b>                 | <b>2003</b> | <b>2003</b>      |
| <b>SANLAM LIMITED GROUP</b>   |           |                             |             |                  |
| <b>Earnings:</b>  |           |                             |             |                  |
| Result from operations before tax                                     | R million | <b>1 694</b>                | 1 222       | 2 405            |
| Core earnings <sup>(1)</sup>  | R million | <b>1 599</b>                | 1 373       | 2 641            |
| Headline earnings <sup>(2)</sup>                                      | R million | <b>1 669</b>                | 1 283       | 2 351            |
| Adjusted headline earnings based on the LTRR <sup>(3)</sup>           | R million | <b>1 916</b>                | 1 681       | 3 291            |
| Net result from operations per share                                  | cents     | <b>34,8</b>                 | 28,7        | 53,2             |
| Core earnings per share <sup>(1)</sup>                                | cents     | <b>60,2</b>                 | 52,1        | 100,2            |
| Headline earnings per share <sup>(2)</sup>                            | cents     | <b>62,8</b>                 | 48,7        | 89,2             |
| Adjusted headline earnings per share based on the LTRR <sup>(3)</sup> | cents     | <b>72,1</b>                 | 63,8        | 124,9            |
| Group administration cost ratio <sup>(4)</sup>                        | %         | <b>31,1</b>                 | 32,2        | 33,6             |
| Group operating margin <sup>(5)</sup>                                 | %         | <b>23,4</b>                 | 18,1        | 17,5             |
| <b>Business volumes:</b>  |           |                             |             |                  |
| New business volumes  | R million | <b>27 143</b>               | 18 234      | 38 786           |
| Net funds flow  | R million | <b>8 263</b>                | 558         | 4 956            |
| New business embedded value   | R million | <b>138</b>                  | 107         | 232              |
| Life insurance new business APE <sup>(6)</sup>                        | R million | <b>917</b>                  | 882         | 1 832            |
| New business embedded value margin                                    | %         | <b>15,0</b>                 | 12,1        | 12,7             |
| <b>Embedded value:</b>  |           |                             |             |                  |
| Embedded value  | R million | <b>30 905</b>               | 26 841      | 29 662           |
| Embedded value per share  | cents     | <b>1 129</b>                | 1 023       | 1 147            |
| Growth from life business <sup>(7)</sup>                              | %         | <b>16,6</b>                 | 13,9        | 24,7             |
| Return on embedded value <sup>(8)</sup>                               | %         | <b>11,5</b>                 | 5,4         | 14,4             |
| <b>SANLAM LIFE INSURANCE LIMITED</b>                                  |           |                             |             |                  |
| Shareholders' funds   | R million | <b>20 064</b>               | 17 484      | 19 736           |
| Capital adequacy requirements (CAR)                                   | R million | <b>7 775</b>                | 9 050       | 7 250            |
| Shareholders' funds to total policy liabilities                       | %         | <b>15,3</b>                 | 13,9        | 14,7             |
| Shareholders' funds to non-market-related policy liabilities          | %         | <b>23,0</b>                 | 20,2        | 21,7             |
| CAR covered   | times     | <b>2,6</b>                  | 1,9         | 2,7              |

## 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) Returns for six months are annualised.

(8) 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. Returns for six months are annualised.

## EXECUTIVE REVIEW

### Operational performance

Sanlam achieved satisfactory results for the six-month period to 30 June 2004. Overall new business volumes were 49% up on the first six months of 2003 and net fund inflows exceeded R8 billion, assisted by strong new investment related inflows. The embedded value of new life business improved by 29% to R138 million. Headline earnings increased by 30% and core earnings by 16%, due to an improved operational performance across the Group and a particularly strong performance from Santam. Headline and core earnings per share increased by 29% and 15% respectively, taking the increase in the weighted number of issued shares following the Ubuntu-Botho transaction into account.

A combination of ongoing stock market volatility, a strong Rand and low interest rates contributed to a difficult business environment for contractual savings and Life assurance products in particular. Short-term insurance business, however, performed exceptionally well, benefiting from continuing favourable underwriting conditions.

### Delivering on strategy

Sanlam introduced its *back to basics* strategy in May 2003. During this reporting period, management attention remained focused on the implementation of this strategy and on initiatives to address those factors that have hindered the Group's past performance. Satisfactory progress has been made to date in respect of several of these initiatives, which contributed to the period's improved results.

- Benefits from the major cost-cutting exercise in Sanlam Life are evident in its operating results and the improvement in its average new business embedded value margin. We remain confident that the indicated R250 million of annualised cost savings will be realised for the full year.
- The restructuring of Sanlam's UK operations into Sanlam Financial Services UK has been completed and the re-focused operations made a welcome return to profitability during the period.
- Gensec Bank returned its banking license in June 2004 and now formally operates as the restructured Sanlam Capital Markets (SCM), with its primary focus on complementary and value enhancing services to the Group. SCM's maiden results for the six months are in line with our expectations.
- The co-operation arrangement with Absa is starting to bear fruit. This is evident in improved mutual support of products and services, as well as the early successes of joint ventures like the recently launched Sanlam Home Loans.
- Consistent competitive investment performance remains a priority. Sanlam Investment Management's challenge is to maintain its recent achievements in respect of investment results and new business inflows and to rebuild a sustained superior long-term performance record.
- The Ubuntu-Botho empowerment transaction was successfully implemented and the broad-based shareholder base of Ubuntu-Botho is in the process of being finalised.

### Looking forward

Management's focus is aimed at sustaining the positive momentum of unlocking shareholder value. This is particularly targeted at improvements in distribution reach and capacity and capital efficiency. Delivering on the strategies implemented during the past year to increase the inflows and market share of the Life Insurance cluster is our highest priority. While the Absa distribution agreement and the Ubuntu-Botho transaction provide good potential for growth, substantial effort is required to unlock this potential and convert it into positive business inflows. Appropriate structures have been put in place to explore these opportunities. An analysis of Sanlam's market positioning and penetration identified certain real growth opportunities. The renewed focus on Employee Benefits business and its relocation to our recently launched Johannesburg office is part of this initiative. The latter is in particular aimed at increasing our presence and visibility in the Gauteng market.

Optimising Sanlam's capital utilisation is an ongoing priority. Several options on preferred capital structures, composition and utilisation are being evaluated. We aim to report in detail on the progress in this regard when we announce our year-end results for 2004.

Having substantially completed our recovery phase, Sanlam is now ready to leverage off the platforms created in each cluster to build profitable and diversified revenue streams and pursue growth opportunities. We are confident that cost-cutting and restructuring throughout the Group have left our operations in a favourable position to deliver against the challenges facing the industry and Sanlam in particular, including our ability to counter the threat of a lower return and inflation environment. We are focusing on exploring new growth and revenue opportunities for the Group to substitute potentially lower future revenue streams due to changing market preferences, competitive product offerings and shrinking margins. A number of future revenue sources are already in place, including growing contributions from new ventures like Sanlam Home Loans and Sanlam Personal Loans, and new acquisitions such as Merchant Investors Assurance. The process of developing new revenue sources by extending our service and product offering continues.

In the current business environment we expect the positive operational performance to continue for the remainder of the year.

## Directorate

Roy Andersen was appointed as an independent director and non-executive chairman with effect from 3 June 2004. He succeeds the previous chairman, Ton Vosloo, who retired on 2 June 2004. Roy Andersen was the former Chief Executive Officer of Liberty Group Limited and is the non-executive chairman of Murray & Roberts Holdings Limited and Virgin Active South Africa.

The Ubuntu-Botho transaction makes provision for the nomination of three non-executive directors to the Sanlam Board. Patrice Motsepe was appointed as deputy chairman and Rejoice Vakashile Simelane and Bernard Swanepoel as non-executive directors, with effect from 1 April 2004, filling existing vacancies on the Board.

The Sanlam Board decided to increase the number of directors from 16 to 18 to further strengthen and diversify the Board. Maria Ramos and Valli Moosa were appointed as independent non-executive directors with effect from 3 June 2004.

Roy Andersen  
Chairman

Johan van Zyl  
Group Chief Executive

Sanlam Limited  
Cape Town  
1 September 2004

## COMMENTS ON THE INTERIM RESULTS TO JUNE 2004

| <b>Summarised income statement for the 6 months to June</b> |              |              |            |
|---|--------------|--------------|------------|
| R million   | 2004         | 2 003        | △          |
| Net result from operations                                  | 925          | 756          | 22%        |
| Equity-accounted earnings                                   | 448          | 375          | 19%        |
| Net investment income                                       | 226          | 242          | -7%        |
| <b>CORE EARNINGS</b>  | <b>1 599</b> | <b>1 373</b> | <b>16%</b> |
| Financial assistance to policyholder funds                  | -            | ( 290)       |            |
| Net gains on derivatives                                    | 70           | 200          |            |
| <b>HEADLINE EARNINGS</b>                                    | <b>1 669</b> | <b>1 283</b> | <b>30%</b> |
| Net realised investment surpluses                           | 43           | ( 83)        |            |
| Discontinuance expenses                                     | (13)         | -            |            |
| Impairments   | (57)         | ( 231)       |            |
| Goodwill amortised  | (179)        | ( 150)       |            |
| <b>Attributable earnings</b>                                | <b>1 463</b> | <b>819</b>   | <b>79%</b> |
| Net result from operations                                  | 925          | 756          | 22%        |
| LTRR investment return                                      | 991          | 925          | 7%         |
| <b>LTRR EARNINGS</b>  | <b>1 916</b> | <b>1 681</b> | <b>14%</b> |

### Earnings

Headline earnings for the six-month period increased by 30% to R1 669 million (2003: R1 283 million), largely due to the strong growth in the result from operations and in the equity-accounted contribution from Absa's earnings for its six month reporting period to March 2004. Investment income was down by 7%, substantially due to lower prevailing interest rates. Headline earnings per share increased by 29%.

In terms of AC133 (Financial Instruments: Recognition and Measurement) Sanlam has designated its investment assets as available-for-sale and all derivatives are allocated to the held-for-trading category. The interpretation of AC133 has evolved during the year. At the time of preparing the interim results for 2003 and adopting AC133, it was considered that Sanlam's treatment of derivatives in its capital portfolio would qualify for hedge accounting and the results were presented on that basis. Based on current interpretation of AC133 it became clear that the Group is not allowed to apply hedge accounting principles in cases where a portfolio of equities is hedged, despite the fact that the hedges are effective. As a result, the net fair value adjustment of derivative instruments held by the shareholders' funds needs to be included in headline earnings, but the value changes in the underlying equity portfolio are taken directly to equity. This mismatch provides a distorted disclosure of the real investment performance. The net fair value adjustment of derivatives as at 30 June 2004 amounted to a gain of R70 million, compared to R200 million as at 30 June 2003. The 2003 interim results have been restated accordingly. A minimal value adjustment in the 2003 year-end results was not disclosed separately.

The presentation of the 2003 year-end Group results included a core earnings line, comprising net result from operations, equity-accounted income and investment income earned on shareholders' funds. We continue to report core earnings in 2004, which increased by 16% to R1 599 million for the six months to June. Core earnings exclude the value adjustment of derivatives as well as the financial assistance afforded to policyholders' funds in 2003.

Attributable earnings for the six months increased by 79% to R1 463 million, representing total earnings for the period, excluding unrealised investment surpluses that are taken directly to equity in terms of Sanlam's accounting policies. Attributable earnings are stated net of an aggregate realised investment surplus of R43 million, a provision of R13 million in respect of an onerous property lease contract resulting from the closure of Gensec Bank's Dublin operations, amortised goodwill and an impairment of the investment in the Safair Lease Finance joint venture (included in the discontinuing operations of Gensec Bank), which has a substantial foreign currency exposure. The strong appreciation of the Rand required a review of the carrying value of the investment. Based on the latest valuation, an impairment of R47 million was deemed prudent.

Earnings based on a long-term rate of investment return of 11% pre-tax per annum (2003: 12%) increased by 14% (earnings per share up 13%).

The withdrawal of AC121 (Disclosure in the financial statements of long-term insurers) and the compulsory full implementation of International Financial Reporting Standards in 2005 will require a review of the Group's accounting policies, which will include a review of the designation of investments and the accounting treatment of derivatives. An indication of the impact on earnings and the changes to the reporting format will be addressed in the 2004 annual report.

### **Impact of the Ubuntu-Botho transaction**

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

The transaction resulted in a dilution of approximately 1% in earnings per share for the six months based on the increase in the weighted number of shares in issue, and a 3,4% dilution in the embedded value per share as at 30 June 2004, taking into account the increase in Sanlam's issued shares due to the transaction. The calculated number of Sanlam shares in issue makes provision for 3 million of the Sanlam 'A' deferred shares issued to Ubuntu-Botho to be convertible into ordinary shares based on Sanlam's business flows for the six months. The final calculation and the right to convert will only vest on the finalisation of the full year's audited results.

The effective transfer of 56,5 million Sanlam treasury shares to Ubuntu-Botho to bring about the Sanlam Ubuntu-Botho Development Trust's 20% holding in Ubuntu-Botho, is accounted for as a disposal of treasury shares for no consideration, which, in terms of generally accepted accounting practice, do not impact on the income statement. (The illustration of 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.)

## Business volumes

| <b>New Business Volumes for the 6 months to June</b> |               |        |      |
|--|---------------|--------|------|
| R million  | 2004          | 2003   | Δ    |
| Individual Life                                      | <b>3 906</b>  | 3 782  | 3%   |
| Recurring  | <b>671</b>    | 717    | -6%  |
| Single   | <b>3 235</b>  | 3 065  | 6%   |
| Employee benefits                                    | <b>1 071</b>  | 1 066  | 0%   |
| Namibia  | <b>85</b>     | 36     | 136% |
| Merchant Investors                                   | <b>305</b>    | -      |      |
| <b>Life business</b>                                 | <b>5 367</b>  | 4 884  | 10%  |
| Investment cluster                                   | <b>12 040</b> | 7 554  | 59%  |
| Innofin  | <b>3 148</b>  | 2 324  | 35%  |
| SFS UK   | <b>2 730</b>  | 182    |      |
| Namibia Unit Trust                                   | <b>274</b>    | 212    | 29%  |
| <b>Investment business</b>                           | <b>18 192</b> | 10 272 | 77%  |
| <b>Short-term insurance</b>                          | <b>3 584</b>  | 3 078  | 16%  |
| <b>TOTAL</b>   | <b>27 143</b> | 18 234 | 49%  |

Total new business inflows of more than R27 billion for the first six months of 2004 is 49% higher than in 2003. This substantial increase can mainly be ascribed to the improved inflows in the Investment cluster and the increased business flows in the UK advisory and investment management business.

### *Life business* inflows increased by **10%** on 2003

- Individual Life inflows were 3% up on the first six months of 2003. Recurring premium new business decreased by 6% as volatility in equity and currency markets continued to depress investor appetite for equity-linked contractual savings products. Individual single premiums were 6% higher than 2003, mainly due to the increase in life annuity product sales. Relatively low long-term returns negatively impacted on guarantee plans and term annuity products (which constitute approximately 65% of total single premiums). International product sales were virtually non-existent due to the strong Rand.
- New employee benefit flows have shown strong growth early in 2004 but, due to the high inflows towards the end of the first half of 2003, could not improve on the overall fund flows of the first six months of 2003.
- The Life business flows include the maiden contribution from Merchant Investors Assurance (MIA) in the UK.

### *Investment* related inflows increased by a significant **77%** on 2003

- Investment cluster inflows increased by R4,5 billion, or 59%, to R12 billion. New SIM segregated fund mandates contributed the bulk of this growth, although meaningful new inflows were also achieved in all the other investment cluster businesses.
- Innofin's portfolio administration and investment business achieved new inflows of R3,1 billion, 35% up on 2003.
- The actuarial and investment advisory business in the UK, Sanlam Financial Services, attracted new business of GBP225 million (R2,7 billion) for the six months.

*Sanlam's* net premium income increased by **16%** to R3,6 billion, the result of a reduction in the level of reinsurance in line with the company's strategy of keeping more business at an acceptable risk profile.



## Net fund flows

Net fund inflows for the six months exceeded R8 billion, well in excess of the R5 billion achieved for the full twelve months in the 2003 financial year. The bulk of the net flows came from investment business, with major contributions from SIM segregated funds and the SFS UK business. Net Life business fund flows were still negative for the six months but recorded a major improvement on 2003, mainly due to well contained outflows.

## New business embedded value

The new business annual premium equivalent (APE) for the first six months increased by **4%** to **R917 million**. Excluding Innofin's APE and the maiden contribution of MIA, the Sanlam Life APE of R804 million is 3% lower compared to the same period in 2003. The embedded value of new business for the six months increased by **29%** to **R138 million**, largely assisted by the realisation of the cost-cutting exercise undertaken at the end of 2003. The APE margin of **15,0%** compares favourably with the 12,1% recorded in 2003. The embedded value of new business includes R8 million (2003: R7 million) in respect of Innofin's life insurance business. No material new business embedded value was added by the new business written by MIA.

## Result from operations

| <b>Result from operations for the 6 months to June</b> |              |       |      |
|--|--------------|-------|------|
| R million  | 2004         | 2003  | Δ    |
| Life Insurance cluster                                 | <b>847</b>   | 750   | 13%  |
| Individual Life  | <b>762</b>   | 668   | 14%  |
| Employee Benefits                                      | <b>85</b>    | 82    | 4%   |
| Santam   | <b>667</b>   | 281   | 137% |
| Investment cluster                                     | <b>212</b>   | 114   | 86%  |
| Sanlam Capital Markets                                 | <b>50</b>    | 50    | -    |
| Independent Financial Services                         | <b>33</b>    | 15    | 120% |
| Other  | <b>41</b>    | 42    | -2%  |
| Corporate expenses                                     | <b>( 79)</b> | ( 62) | -27% |
| <b>Continuing operations</b>                           | <b>1 771</b> | 1 190 | 49%  |
| Discontinuing operations                               | <b>( 77)</b> | 32    |      |
| <b>Gross result from operations</b>                    | <b>1 694</b> | 1 222 | 39%  |

The result from operations increased by **39%** to **R1 694 million**, assisted by an exceptional contribution from Santam.

The **Life Insurance** cluster's operating profit increased by 13% to R847 million. The improved Sanlam Life performance is largely attributable to realised benefits from the cost-cutting exercise and an improvement in certain market-related revenue items. Lower interest rates had a negative impact on interest earned on working capital. Innofin improved on its 2003 performance and the cluster's results also include a first contribution of R26 million from MIA.

Exceptional underwriting performance in property, motor and personal lines contributed to **Santam's** underwriting surplus of R578 million (16% of net premiums earned) for the six months. As a result its result from operations of R667 million (which also includes interest earned on its working capital) exceeded the 2003 results by 137%.

The **Investment** cluster's results for the six months increased by 86% to R212 million. All operations performed well. Strong contributions came from the international multi-manager operations and from Sanlam Properties that benefited from the recent property listing.



**Sanlam Capital Markets (SCM)** achieved its target of an operating profit of R50 million for the first six months of 2004. Following the restructuring of Gensec Bank, its results are split between those of SCM and those attributed to the balance of the Gensec Bank operations. The latter is in respect of assets and associated liabilities that do not meet the criteria set for SCM and cannot be readily realised. The results of these operations for the six months are included in headline earnings under the heading of discontinuing operations. Included in the reported R77 million net loss from these activities is a prudent fair value adjustment on certain of these assets. It also includes a further provision to cover the amicable final out-of-court settlement of the case brought against Gensec Bank in the USA by the previous owners of Fieldstone.

The Gensec Bank banking license was officially returned on 21 June 2004. It is intended that the assets comprising discontinuing operations be transferred to and reported as part of Sanlam's capital from 1 July 2004. Future return on these assets will form part of investment returns.

**Independent Financial Services** recorded a major improvement on the first six months of 2003, largely due to an improved performance from the UK actuarial consulting and investment management operations.

The increase in **corporate expenditure** can mostly be attributed to the centralisation of the Group's Corporate Social Investment spend as from 2004.

### **Solvency**

The capital of Sanlam Life increased by R0,4 billion, after paying a dividend of R1,1 billion, to R20,1 billion at the end of the period and CAR (Capital Adequacy Requirements) cover amounted to 2,6 at the end of June 2004, compared to 2,7 at the end of December 2003.

### **Embedded value**

Sanlam's embedded value amounted to R30,9 billion at the end of June 2004, 4% up on the R29,7 billion at the end of December 2003.

Taking the dividend of R1,1 billion paid into account, R0,8 billion capital raised during the period and R0,2 billion cost of treasury shares acquired, the net growth on the December 2003 embedded value balance amounted to R1,7 billion (11,5% annualised). The annualised growth per share is lower at 7,4% essentially due to the dilution caused by the issue of new shares in the Ubuntu-Botho transaction. The value of Sanlam Life's in-force book amounted to R7,8 billion, after taking into account the cost of capital at risk of R1,4 billion. Annualised growth from life business, based on the starting value of the in-force life business, amounted to 16,6%.

### **Dividend**

In line with past practice, no interim dividend has been declared. Sanlam declares an annual dividend at year-end.

# GROUP INCOME STATEMENT

|  |      | Six months unaudited |           | Full year |
|--|------|----------------------|-----------|-----------|
|  |      | 2004                 | 2003      | 2003      |
|  | Note | R million            | R million | R million |
| <b>FUNDS RECEIVED FROM CLIENTS</b>                                       | 1    | <b>32 412</b>        | 23 134    | 48 883    |
| <b>Result from operations before tax</b>                                 | 4    | <b>1 694</b>         | 1 222     | 2 405     |
| Tax on result from operations  | 5    | (517)                | (354)     | (724)     |
| <b>Result from operations after tax</b>                                  |      | <b>1 177</b>         | 868       | 1 681     |
| Minority shareholders' interest  |      | (252)                | (112)     | (279)     |
| <b>NET RESULT FROM OPERATIONS</b>  |      | <b>925</b>           | 756       | 1 402     |
| Net investment income  |      | <b>226</b>           | 242       | 458       |
| Investment income  | 6    | <b>335</b>           | 370       | 699       |
| Tax on investment income   | 5    | (52)                 | (77)      | (131)     |
| Minority shareholders' interest  |      | (57)                 | (51)      | (110)     |
| Net equity-accounted earnings  |      | <b>448</b>           | 375       | 781       |
| Equity-accounted earnings  |      | <b>611</b>           | 467       | 1 025     |
| Tax on equity-accounted earnings   | 5    | (163)                | (92)      | (244)     |
| <b>CORE EARNINGS</b>   |      | <b>1 599</b>         | 1 373     | 2 641     |
| Financial assistance provided to policyholders' funds                    |      | -                    | (290)     | (290)     |
| Net investment surpluses on derivative instruments                       |      | <b>70</b>            | 200       | -         |
| Investment surpluses on derivative instruments                           |      | <b>77</b>            | 242       | -         |
| Tax on investment surpluses on derivative instruments                    | 5    | (7)                  | (42)      | -         |
| <b>HEADLINE EARNINGS</b>   |      | <b>1 669</b>         | 1 283     | 2 351     |
| Net realised investment surpluses  |      | <b>43</b>            | (83)      | 134       |
| Investment surpluses   |      | <b>93</b>            | (96)      | 215       |
| Tax on investment surpluses  | 5    | (20)                 | 10        | (56)      |
| Minority shareholders' interest  |      | (30)                 | 3         | (25)      |
| Net discontinuance costs   |      | (13)                 | -         | (77)      |
| Discontinuance costs   |      | (13)                 | -         | (108)     |
| Tax on discontinuance costs  | 5    | -                    | -         | 31        |
| Impairment of investments and goodwill                                   |      | (57)                 | (231)     | (248)     |
| Amortisation of goodwill   |      | (179)                | (150)     | (277)     |
| <b>ATTRIBUTABLE EARNINGS</b>   |      | <b>1 463</b>         | 819       | 1 883     |
| <b>Diluted earnings per share (cents):</b>                               |      |                      |           |           |
| Net result from operations   |      | <b>34,8</b>          | 28,7      | 53,2      |
| Core earnings  |      | <b>60,2</b>          | 52,1      | 100,2     |
| Headline earnings  |      | <b>62,8</b>          | 48,7      | 89,2      |
| Attributable earnings  |      | <b>55,1</b>          | 31,1      | 71,5      |
| <b>Basic attributable earnings per share</b>                             |      | <b>55,5</b>          | 31,2      | 72,1      |
| <b>Adjusted weighted average number of shares (million)</b>              | 8    | <b>2 657,2</b>       | 2 633,9   | 2 634,5   |
| <b>ADJUSTED HEADLINE EARNINGS based on the LTRR</b><br>(R million)       |      | <b>1 916</b>         | 1 681     | 3 291     |
| <b>Adjusted headline earnings based on the LTRR</b><br>(cents per share) |      | <b>72,1</b>          | 63,8      | 124,9     |

## GROUP BALANCE SHEET

|  | <b>June unaudited</b> |                | December       |
|--|-----------------------|----------------|----------------|
|  | <b>2004</b>           | 2003           | 2003           |
|  | <b>R million</b>      | R million      | R million      |
| <b>ASSETS</b>  |                       |                |                |
| Non-current assets                                       |                       |                |                |
| Property and equipment                                   | 203                   | 289            | 220            |
| Owner-occupied properties                                | 386                   | 353            | 390            |
| Goodwill   | 2 093                 | 1 840          | 1 855          |
| Investments  | 168 604               | 146 721        | 156 622        |
| Deferred tax   | 294                   | 189            | 257            |
| Short-term reinsurance provisions                        | 1 939                 | 1 945          | 2 302          |
| Current assets   |                       |                |                |
| Trade and other receivables                              | 18 549                | 21 179         | 22 602         |
| Cash, deposits and similar securities                    | 10 202                | 12 217         | 11 808         |
| <b>Total assets</b>                                      | <b>202 270</b>        | <b>184 733</b> | <b>196 056</b> |
| <b>EQUITY AND LIABILITIES</b>                            |                       |                |                |
| Shareholders' funds                                      | 22 930                | 20 208         | 21 687         |
| Minority shareholders' interest                          | 2 248                 | 1 625          | 1 931          |
| Non-current liabilities                                  |                       |                |                |
| Long-term policy liabilities                             | 145 039               | 125 864        | 134 079        |
| Insurance contracts                                      | 94 608                | 88 332         | 94 556         |
| Investment contracts                                     | 50 431                | 37 532         | 39 523         |
| Term finance   | 4 508                 | 4 951          | 4 200          |
| Deferred tax   | 673                   | 223            | 651            |
| Short-term insurance provisions                          | 4 963                 | 4 580          | 5 156          |
| Current liabilities                                      | 21 909                | 27 282         | 28 352         |
| <b>Total equity and liabilities</b>                      | <b>202 270</b>        | <b>184 733</b> | <b>196 056</b> |
| Segregated funds not included in the above balance sheet | 92 362                | 65 869         | 83 181         |
| <b>Total assets under management and administration</b>  | <b>294 632</b>        | <b>250 602</b> | <b>279 237</b> |

## GROUP STATEMENT OF CHANGES IN EQUITY

|  | Six months unaudited |           | Full year |
|--|----------------------|-----------|-----------|
|  | 2004                 | 2003      | 2003      |
|  | R million            | R million | R million |
| <b>Shareholders' funds at beginning of period</b>  | <b>21 687</b>        | 20 651    | 20 651    |
| Attributable earnings                              | <b>1 463</b>         | 819       | 1 883     |
| Dividends paid                                     | <b>(1 082)</b>       | (972)     | (972)     |
| Net unrealised investment surpluses <sup>(1)</sup> | <b>316</b>           | (260)     | 693       |
| Unrealised investment surpluses                    | <b>408</b>           | (250)     | 1 047     |
| Tax on unrealised investment surpluses             | <b>(101)</b>         | (37)      | (289)     |
| Minority shareholders' interest                    | <b>9</b>             | 27        | (65)      |
| Movement in foreign currency translation reserve   | <b>(70)</b>          | (29)      | (211)     |
| Movement in cost of treasury shares <sup>(2)</sup> | <b>138</b>           | 5         | (344)     |
| Net realised investment surplus on treasury shares | <b>(370)</b>         | -         | -         |
| New shares issued <sup>(3)</sup>                   | <b>866</b>           | -         | -         |
| Cost relating to share issuance                    | <b>(18)</b>          | -         | -         |
| Adoption of AC133                                  | -                    | (6)       | (13)      |
| <b>Shareholders' funds at end of period</b>        | <b>22 930</b>        | 20 208    | 21 687    |

(1) Upon the introduction of AC133, investments were classified as available-for-sale and Sanlam elected to take unrealised investment surpluses directly to equity.

(2) Comprises movement in cost of shares held by subsidiaries and the share incentive trust.

(3) 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.

## CASH FLOW STATEMENT

|   | Six months unaudited |           | Full year |
|---|----------------------|-----------|-----------|
|   | 2004                 | 2003      | 2003      |
|   | R million            | R million | R million |
| Net cash (outflow)/inflow from operating activities before dividends paid | <b>(737)</b>         | 1 177     | 1 720     |
| Dividends paid  | <b>(1 082)</b>       | (972)     | (972)     |
| Net cash outflow from investment activities                               | <b>(943)</b>         | (332)     | (495)     |
| Net cash inflow/(outflow) from financing activities                       | <b>1 156</b>         | (381)     | (1 170)   |
| <b>Net decrease in cash and cash equivalents</b>                          | <b>(1 606)</b>       | (508)     | (917)     |
| Cash, deposits and similar securities at beginning of period              | <b>11 808</b>        | 12 725    | 12 725    |
| <b>Cash, deposits and similar securities at end of period</b>             | <b>10 202</b>        | 12 217    | 11 808    |

## ABRIDGED SHAREHOLDERS' FUNDS BALANCE SHEET – NET ASSET VALUE

(All businesses consolidated at NAV)

|   | <b>June unaudited</b> |           | December  |
|---|-----------------------|-----------|-----------|
|   | <b>2004</b>           | 2003      | 2003      |
|   | <b>R million</b>      | R million | R million |
| <b>Assets</b>                               |                       |           |           |
| Goodwill                                    | <b>2 093</b>          | 1 840     | 1 855     |
| Investments                                 | <b>26 539</b>         | 24 390    | 26 010    |
| Current and other assets                    | <b>27 480</b>         | 31 747    | 33 249    |
| <b>Total assets</b>                         | <b>56 112</b>         | 57 977    | 61 114    |
| <b>Equity and liabilities</b>               |                       |           |           |
| Shareholders' funds                         | <b>22 930</b>         | 20 208    | 21 687    |
| Minority shareholders' interest             | <b>2 406</b>          | 1 932     | 2 217     |
| Term finance, current and other liabilities | <b>30 776</b>         | 35 837    | 37 210    |
| <b>Total equity and liabilities</b>         | <b>56 112</b>         | 57 977    | 61 114    |

## ABRIDGED SHAREHOLDERS' FUNDS BALANCE SHEET – FAIR VALUE

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

|   |      | June unaudited |               | December      |
|---|------|----------------|---------------|---------------|
|   |      | 2004           | 2003          | 2003          |
|   | Note | R million      | R million     | R million     |
| <b>Assets</b>                                       |      |                |               |               |
| Fixed assets  |      | 103            | 134           | 113           |
| Owner-occupied properties                           |      | 369            | 333           | 370           |
| Goodwill <sup>(1)</sup>                             |      | 353            | -             | -             |
| Investments   |      |                |               |               |
| Sanlam businesses                                   | 7    | 5 664          | 5 471         | 6 237         |
| Investment Management <sup>(2)</sup>                |      | 2 079          | 1 603         | 1 904         |
| Sanlam Financial Services                           |      | 356            | 741           | 378           |
| Sanlam Capital Markets <sup>(3)</sup>               |      | 441            | 1 177         | 1 001         |
| Gensec Properties                                   |      | 30             | 71            | 52            |
| Innofin <sup>(4)</sup>                              |      | 145            | 62            | 214           |
| Santam  |      | 2 613          | 1 817         | 2 688         |
| Associated company – Absa                           |      | 6 254          | 4 545         | 5 181         |
| Joint venture – Safair Lease Finance <sup>(5)</sup> |      | 298            | -             | -             |
| Other investments                                   |      |                |               |               |
| Other equities                                      |      | 6 815          | 5 164         | 6 670         |
| Public sector stocks and loans                      |      | 2 388          | 1 534         | 1 916         |
| Investment properties                               |      | 505            | 611           | 607           |
| Other interest-bearing investments                  |      | 6 142          | 7 287         | 6 033         |
| Deferred tax  |      | 150            | -             | 3             |
| Current assets                                      |      | 6 413          | 4 714         | 5 296         |
| <b>Total assets</b>                                 |      | <b>35 454</b>  | <b>29 793</b> | <b>32 426</b> |
| <b>Equity and liabilities</b>                       |      |                |               |               |
| Shareholders' funds                                 |      | 23 958         | 20 658        | 22 819        |
| Term finance  |      | 4 819          | 4 696         | 4 501         |
| Deferred tax  |      | 391            | 5             | 298           |
| Current liabilities                                 |      | 6 286          | 4 434         | 4 808         |
| <b>Total equity and liabilities</b>                 |      | <b>35 454</b>  | <b>29 793</b> | <b>32 426</b> |
| Net asset value per share (cents)                   |      | 875            | 787           | 883           |

(1) The goodwill relates 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) Included in Investment Management are Sanlam Investment Management, Sanlam Collective Investments, Tasc and the Investment Cluster's international businesses.

(3) The comparative figures for June and December 2003 refer to Gensec Bank (including the discontinued operations). The June 2004 figure includes only the activities of Sanlam Capital Markets.

(4) The value of Innofin on 30 June 2004 excludes the value of the Illa business, as this is included in the calculation of the Group value of in-force business. On 31 December 2003, the value of the Illa business was still included in the value of Innofin as disclosed above. The value on 30 June 2003 comprises only two thirds of the total value of Innofin and was based on a conservative valuation.

(5) 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.

## NOTES TO THE FINANCIAL STATEMENTS

|   | Six months unaudited |               | Full year     |
|---|----------------------|---------------|---------------|
|   | 2004                 | 2003          | 2003          |
|   | R million            | R million     | R million     |
| <b>1. FUNDS RECEIVED FROM CLIENTS</b>   |                      |               |               |
| Life insurance  | 5 367                | 4 884         | 10 012        |
| Investments   | 18 192               | 10 272        | 22 019        |
| Short-term insurance  | 3 584                | 3 078         | 6 755         |
| <b>Total new business</b>   | <b>27 143</b>        | <b>18 234</b> | <b>38 786</b> |
| Recurring premiums on existing business   | 5 269                | 4 900         | 10 097        |
| <b>Total funds received from clients</b>  | <b>32 412</b>        | <b>23 134</b> | <b>48 883</b> |
| <b>New business premiums used in the calculation of Annual Premium Equivalent (APE)</b> |                      |               |               |
| Recurring premiums  | 454                  | 484           | 1 026         |
| Individual Life   | 671                  | 717           | 1 478         |
| Merchant Investors Assurance  | 3                    | -             | -             |
| Sanlam Namibia  | 13                   | 10            | 26            |
| Less: index growth  | (289)                | (305)         | (643)         |
| Add: optional reductions  | 18                   | 17            | 38            |
| Group Life  | 38                   | 45            | 127           |
| Single premiums   | 4 630                | 3 979         | 8 067         |
| Individual Life   | 2 431                | 2 528         | 4 819         |
| Merchant Investors Assurance  | 302                  | -             | -             |
| Sanlam Namibia  | 72                   | 26            | 54            |
| Group Life  | 1 021                | 925           | 2 164         |
| Innofin (Illa's)  | 804                  | 500           | 1 030         |
| <b>Total premiums used to calculate APE</b>   | <b>5 084</b>         | <b>4 463</b>  | <b>9 093</b>  |
| <b>Life insurance annual premium equivalent</b>   | <b>917</b>           | <b>882</b>    | <b>1 832</b>  |
| <b>2. PAYMENTS TO CLIENTS</b>   |                      |               |               |
| Life insurance  | 12 383               | 13 808        | 25 136        |
| Investments   | 9 704                | 6 610         | 14 416        |
| Short-term insurance  | 2 062                | 2 158         | 4 375         |
| <b>Total payments to clients</b>  | <b>24 149</b>        | <b>22 576</b> | <b>43 927</b> |
| <b>3. NET FLOW OF FUNDS</b>   |                      |               |               |
| Life insurance  | (1 747)              | (4 024)       | (5 027)       |
| Investments   | 8 488                | 3 662         | 7 603         |
| Short-term insurance  | 1 522                | 920           | 2 380         |
| <b>Total flow of funds</b>  | <b>8 263</b>         | <b>558</b>    | <b>4 956</b>  |



**NOTES (continued)**

|  | Six months unaudited<br>2004<br>R million | 2003<br>R million | Full year<br>2003<br>R million |
|--|---|-------------------|--------------------------------|
| <b>4. ANALYSIS OF RESULT FROM OPERATIONS</b>                               |   |                   |                                |
| <b>Per business cluster</b>  |   |                   |                                |
| Life Insurance cluster   | 847                                       | 750               | 1 467                          |
| Santam   | 667                                       | 281               | 735                            |
| Investment cluster   | 212                                       | 114               | 270                            |
| Sanlam Capital Markets   | 50  | 50                | 55                             |
| Independent Financial Services   | 33  | 15                | (1)                            |
| Sanlam Financial Services UK   | 24  | 7                 | (20)                           |
| Gensec Property Services   | 9   | 8                 | 19                             |
| Corporate income   | 41  | 42                | 73                             |
| Corporate costs  | (79)                                      | (62)              | (120)                          |
| <b>Result from continuing operations</b>                                   | <b>1 771</b>                              | <b>1 190</b>      | <b>2 479</b>                   |
| Discontinuing operations   | (77)                                      | 32                | (74)                           |
| <b>Total result from operations</b>  | <b>1 694</b>                              | <b>1 222</b>      | <b>2 405</b>                   |
| <b>Functional analysis</b>   |   |                   |                                |
| Financial services income  | 8 154                                     | 7 707             | 15 970                         |
| Sales remuneration   | (914)                                     | (959)             | (1 892)                        |
| Income after sales remuneration  | 7 240                                     | 6 748             | 14 078                         |
| Underwriting policy benefits   | (3 291)                                   | (3 354)           | (6 877)                        |
| Administration costs   | (2 255)                                   | (2 172)           | (4 796)                        |
| <b>Total result from operations</b>  | <b>1 694</b>                              | <b>1 222</b>      | <b>2 405</b>                   |
| <b>5. TAXATION</b>   |   |                   |                                |
| Result from operations   | 517                                       | 354               | 724                            |
| Current year   | 517                                       | 354               | 714                            |
| Prior year   | -   | -                 | 9                              |
| Equity-accounted earnings included in result from operations               | -   | -                 | 1                              |
| Investment income – current year   | 52  | 77                | 131                            |
| Equity-accounted earnings  | 163                                       | 92                | 244                            |
| Tax on derivatives   | 7   | 42                | -                              |
| Realised investment surpluses – capital gains tax                          | 20  | (10)              | 56                             |
| Taxation on discontinuance costs   | -   | -                 | (31)                           |
| <b>Income tax charged to income statement</b>                              | <b>759</b>                                | <b>555</b>        | <b>1 124</b>                   |
| Taxation charged directly to equity:                                       |   |                   |                                |
| Unrealised investment surpluses  | 101                                       | 37                | 289                            |
| Investment surpluses – normal  | -   | 66                | 64                             |
| Investment surpluses – capital gains tax                                   | (61)                                      | (29)              | 81                             |
| Investment surplus on investment in associated company - capital gains tax | 162                                       | -                 | 144                            |
| <b>Total taxation</b>  | <b>860</b>                                | <b>592</b>        | <b>1 413</b>                   |

**NOTES (continued)**

|                                | Six months unaudited<br>2004<br>R million | 2003<br>R million | Full year<br>2003<br>R million |
|--------------------------------|---|-------------------|--------------------------------|
| <b>6. INVESTMENT INCOME</b>    |   |                   |                                |
| Interest-bearing investments   | 137                                       | 179               | 326                            |
| Equities                       | 179                                       | 154               | 312                            |
| Properties                     | 19  | 37                | 61                             |
| <b>Total investment income</b> | <b>335</b>                                | <b>370</b>        | <b>699</b>                     |

**7. SANLAM BUSINESSES: EXCESS OF FAIR VALUE OVER NET ASSET VALUE**

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<br>2004<br>R million | 2003<br>R million | December<br>2003<br>R million |
|---|-------------------------------------|-------------------|-------------------------------|
| Net asset value of businesses                           | 3 413                               | 3 738             | 3 772                         |
| Investment Management <sup>(1)</sup>                    | 367                                 | 311               | 368                           |
| Sanlam Financial Services                               | 378                                 | 415               | 402                           |
| Sanlam Capital Markets                                  | 441                                 | 1 376             | 1 001                         |
| Gensec Properties                                       | 34                                  | 51                | 28                            |
| Innofin   | 136                                 | 43                | 152                           |
| Santam  | 2 057                               | 1 542             | 1 821                         |
| Goodwill recognised in respect of above businesses      | 1 112                               | 1 283             | 1 198                         |
| Deferred capital gains tax on investments at fair value | 111                                 | -                 | 135                           |
| Revaluation of interest in businesses to fair value     | 1 028                               | 450               | 1 132                         |
| <b>Fair value of businesses</b>                         | <b>5 664</b>                        | <b>5 471</b>      | <b>6 237</b>                  |

**8. NUMBER OF SHARES FOR CENTS PER SHARE CALCULATIONS****Earnings per share**

|  |                |                |                |
|--|----------------|----------------|----------------|
| Number of ordinary shares in issue   | 2 767,6        | 2 654,6        | 2 654,6        |
| Less: Weighted Sanlam shares held by subsidiaries                                | (48,9)         | (28,9)         | (44,1)         |
| Less: Adjustment for weighting of shares issued during period                    | (84,7)         | -              | -              |
| <b>Adjusted weighted average number of shares for basic earnings per share</b>   | <b>2 634,0</b> | <b>2 625,7</b> | <b>2 610,5</b> |
| Add: Total number of shares under option   | 128,9          | 159,4          | 157,8          |
| Less: Number of shares (under option) that would have been issued at fair value  | (108,7)        | (151,2)        | (133,8)        |
| Add: Dilutive effect of deferred shares  | 3,0            | -              | -              |
| <b>Adjusted weighted average number of shares for diluted earnings per share</b> | <b>2 657,2</b> | <b>2 633,9</b> | <b>2 634,5</b> |
| <b>Value per share</b>   |                |                |                |
| Number of ordinary shares in issue   | 2 767,6        | 2 654,6        | 2 654,6        |
| Shares held by subsidiaries  | (30,4)         | (28,9)         | (69,4)         |
| <b>Adjusted number of shares for value per share</b>                             | <b>2 737,2</b> | <b>2 625,7</b> | <b>2 585,2</b> |

(1) Included in Investment Management are Sanlam Investment Management, Sanlam Collective Investments, Tasc and the Investment Cluster's international businesses

## ACCOUNTING POLICIES AND ACTUARIAL BASIS

The accounting policies adopted for the purposes of the financial statements comply with South African Statements of Generally Accepted Accounting Practice, specifically AC127 on interim financial reporting, and with applicable legislation. Except for the change in the presentation of deferred tax relating to the policyholder funds detailed below, these accounting policies are consistent with those of the previous year.

The policy liabilities and profit entitlement rules are determined in accordance with prevailing legislation, generally accepted actuarial practice and the stipulations contained in the demutualisation proposal. There were no material changes in the financial soundness valuation basis or embedded value calculation methodology since 31 December 2003.

## CHANGES IN REPORTING STRUCTURES AND ACCOUNTING POLICIES

The results of Innofin have been transferred from the Investment Cluster to the Life Cluster. Results from operations of prior periods have been restated accordingly. For June 2003, R10 million and for December 2003, R22 million of profit is transferred from the Investment Cluster to the Life Cluster. The embedded value calculation now also includes the value of in-force life insurance business written by Innofin on Sanlam Life's license. The non-insurance business is still valued on a fair value approach.

As the regulatory requirements for Sanlam's acquisition of Merchant Investors Assurance were only satisfied late in December 2003 the results of the company were not consolidated into the Sanlam group at year-end. The full investment was included at the cost of R383 million in equity investments. From June 2004, only the net asset value of MIA will be included in the consolidated 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 about 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 accounting policy for deferred tax in respect of the policyholder funds has been amended to comply 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 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 results are split between continuing (Sanlam Capital Markets) and discontinuing 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 results 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 achieved 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.

## ADJUSTED HEADLINE EARNINGS – LTRR

|  | June unaudited<br>2004<br>R million | 2003<br>R million | December<br>2003<br>R million |
|--|-------------------------------------|-------------------|-------------------------------|
|--|-------------------------------------|-------------------|-------------------------------|

The LTRR investment return is determined by applying the long-term expected return of 11% (2003: 12%) to the average monthly shareholders' fund investments

### Adjusted headline earnings – long-term rate of return (LTRR)

|  |              |              |              |
|--|--------------|--------------|--------------|
| Net result from operations               | 925          | 756          | 1 402        |
| LTRR investment return                   | 991          | 925          | 1 889        |
| Net equity-accounted earnings            | 448          | 375          | 781          |
| Investment return after tax              | 543          | 550          | 1 108        |
| <b>Adjusted headline earnings – LTRR</b> | <b>1 916</b> | <b>1 681</b> | <b>3 291</b> |

### Reconciliation of headline earnings and LTRR headline earnings

|  |              |              |              |
|--|--------------|--------------|--------------|
| Headline earnings per income statement                       | 1 669        | 1 283        | 2 351        |
| Net realised investment surpluses per income statement       | 43           | (83)         | 134          |
| Net unrealised investment surpluses taken directly to equity | 316          | (260)        | 693          |
| Net LTRR adjustment  | (112)        | 741          | 113          |
| <b>Adjusted headline earnings – LTRR</b>                     | <b>1 916</b> | <b>1 681</b> | <b>3 291</b> |

### Analysis of net LTRR adjustment

|   |              |            |            |
|---|--------------|------------|------------|
| Investment return                           | (104)        | 821        | (61)       |
| Equities                                    | 443          | 710        | 168        |
| Surplus on investment in associated company | (760)        | (184)      | (676)      |
| Interest-bearing investments                | 211          | 325        | 461        |
| Properties                                  | 2            | (30)       | (14)       |
| Tax   | 13           | (5)        | 163        |
| Minority shareholders' interest             | (21)         | (75)       | 11         |
| <b>Net LTRR adjustment</b>                  | <b>(112)</b> | <b>741</b> | <b>113</b> |

### ASSETS SUBJECT TO LTRR

|  |               |               |               |
|--|---------------|---------------|---------------|
| Investments per shareholders' funds balance sheet at net asset value | 26 509        | 24 390        | 26 010        |
| Less: Investment in associated companies                             | (6 413)       | (4 588)       | (5 391)       |
| Investment in joint ventures   | (268)         | (331)         | (309)         |
| Investments held in respect of term finance                          | (3 417)       | (4 791)       | (4 454)       |
| Investments held in respect of banking operations                    | (89)          | (1 177)       | (1 568)       |
| Investments held in respect of discontinued operations               | (797)         | -             | -             |
| Other  | (255)         | 81            | (289)         |
| <b>Long-term rate of return investments</b>                          | <b>15 270</b> | <b>13 584</b> | <b>13 999</b> |

## EMBEDDED VALUE

|   | <b>June unaudited</b>       |                  | December  |
|---|-----------------------------|------------------|-----------|
|   | <b>2004</b>                 | 2003             | 2003      |
|   | <b>R million</b>            | R million        | R million |
| <b>1. EMBEDDED VALUE</b>  |                             |                  |           |
| Sanlam group shareholders' funds at fair value  | <b>23 958</b>               | 20 658           | 22 819    |
| Adjustment for discounting capital gains tax <sup>(1)</sup>   | <b>111</b>                  | -                | 91        |
| Adjustment to include business under value of in-force <sup>(2)</sup>   | <b>(353)</b>                | -                | (449)     |
| Present value of strategic corporate expenses <sup>(3)</sup>  | <b>(641)</b>                | (472)            | (592)     |
| Sanlam group shareholders' adjusted net assets  | <b>23 075</b>               | 20 186           | 21 869    |
| Net value of life insurance business in force <sup>(2)</sup>  | <b>7 830</b>                | 6 655            | 7 793     |
| Value of life insurance business in force   | <b>9 237</b>                | 8 010            | 9 143     |
| Cost of capital at risk   | <b>(1 407)</b>              | (1 355)          | (1 350)   |
| <b>Sanlam group embedded value</b>  | <b>30 905</b>               | 26 841           | 29 662    |
| Embedded value per share (cents)  | <b>1 129</b>                | 1 023            | 1 147     |
| Number of shares (million)  | <b>2 737</b>                | 2 625            | 2 585     |
|   |                             |                  |           |
|   | <b>Six months unaudited</b> | <b>Full year</b> |           |
|   | <b>2004</b>                 | 2003             | 2003      |
|   | <b>R million</b>            | R million        | R million |
| <b>2. EMBEDDED VALUE EARNINGS</b>   |                             |                  |           |
| Embedded value from new life insurance business <sup>(4)</sup>  | <b>138</b>                  | 100              | 218       |
| Earnings from existing life insurance business  | <b>736</b>                  | 579              | 1 404     |
| Expected return   | <b>582</b>                  | 527              | 1 153     |
| Operating experience variations <sup>(5)</sup>  | <b>113</b>                  | 110              | 241       |
| Operating assumption changes <sup>(5)</sup>   | <b>41</b>                   | (58)             | 10        |
| <b>Embedded value earnings from life operations</b>   | <b>874</b>                  | 679              | 1 622     |
| Economic assumption changes   | <b>(48)</b>                 | 114              | 99        |
| Tax changes   | <b>-</b>                    | 23               | (6)       |
| Investment variances (including change in long-term asset mix)  | <b>(183)</b>                | (363)            | (50)      |
| Exchange rate movements   | <b>(21)</b>                 | -                | -         |
| <b>Growth from life insurance business</b>  | <b>622</b>                  | 453              | 1 665     |
| Investment return on shareholders' adjusted net assets <sup>(6)</sup>   | <b>1 031</b>                | 268              | 2 226     |
| <b>Total embedded value earnings before dividends are paid, capital raised and cost of treasury shares acquired</b> | <b>1 653</b>                | 721              | 3 891     |
| Dividends paid  | <b>(1 082)</b>              | (972)            | (972)     |
| Capital raised  | <b>848</b>                  | -                | -         |
| Cost of treasury shares acquired  | <b>(176)</b>                | 5                | (344)     |
| <b>Change in Sanlam group embedded value</b>  | <b>1 243</b>                | (246)            | 2 575     |
| Growth from life insurance business as a % of beginning value of in-force   | <b>16,6%*</b>               | 13,9%*           | 24,7%     |
| Return on embedded value <sup>(7)</sup>   | <b>11,5%*</b>               | 5,4%*            | 14,4%     |
| Return on embedded value per share <sup>(7)</sup>   | <b>7,4%*</b>                | 5,4%*            | 14,6%     |

\* annualised

**EMBEDDED VALUE** (continued)

|   | <b>June unaudited</b> |           | December  |
|---|-----------------------|-----------|-----------|
|   | <b>2004</b>           | 2003      | 2003      |
|   | <b>R million</b>      | R million | R million |
| <b>3. NEW BUSINESS EMBEDDED VALUE</b>   |                       |           |           |
| Gross value of new business   | <b>149</b>            | 120       | 260       |
| Individual business – RSA   | <b>124</b>            | 103       | 200       |
| Group business – RSA  | <b>19</b>             | 15        | 57        |
| Rest of the world <sup>(8)</sup>  | <b>6</b>              | 2         | 3         |
| Cost of Capital at risk   | <b>(11)</b>           | (13)      | (28)      |
| Individual business – RSA   | <b>(5)</b>            | (10)      | (17)      |
| Group business – RSA  | <b>(4)</b>            | (3)       | (11)      |
| Rest of the world <sup>(8)</sup>  | <b>(2)</b>            | -         | -         |
| <b>Net value of new business <sup>(4)</sup></b>                                   | <b>138</b>            | 107       | 232       |
| <b>Net value of new business as a percentage of the annual premium equivalent</b> |                       |           |           |
| Annual Premium Equivalent (APE) <sup>(9)</sup>                                    | <b>917</b>            | 882       | 1 832     |
| Individual business – RSA   | <b>729</b>            | 735       | 1 470     |
| Group business – RSA  | <b>141</b>            | 138       | 343       |
| Rest of the world <sup>(8)</sup>  | <b>47</b>             | 9         | 19        |
| Net value of new business   | <b>138</b>            | 107       | 232       |
| Individual business – RSA   | <b>119</b>            | 93        | 183       |
| Group business – RSA  | <b>15</b>             | 12        | 46        |
| Rest of the world <sup>(8)</sup>  | <b>4</b>              | 2         | 3         |
| APE margin  | % <b>15,0</b>         | 12,1      | 12,7      |
| Individual business – RSA   | % <b>16,3</b>         | 12,7      | 12,4      |
| Group business – RSA  | % <b>10,6</b>         | 8,7       | 13,4      |
| Rest of the world <sup>(8)</sup>  | % <b>8,5</b>          | 22,2      | 15,8      |

|  | <b>R million</b> | <b>% Change from base</b> |
|--|------------------|---------------------------|
|--|------------------|---------------------------|

**4. SENSITIVITY****Value of in-force business less cost of capital at risk**

|   |       |       |
|---|-------|-------|
| Base value                                    | 7 830 |       |
| Risk discount rate increases by 1,0% to 13,9% | 7 084 | (10%) |
| Risk discount rate decreases by 1,0% to 11,9% | 8 665 | 11%   |

**Value of new business less cost of capital at risk**

|   |     |       |
|---|-----|-------|
| Base value                                    | 138 |       |
| Risk discount rate increases by 1,0% to 13,9% | 123 | (11%) |
| Risk discount rate decreases by 1,0% to 11,9% | 155 | 12%   |

## 5. METHODOLOGY

There were no material changes in the embedded value methodology applied since 31 December 2003.

## 6. PRINCIPAL ASSUMPTIONS

|  | <b>June unaudited</b> |        | December |
|--|-----------------------|--------|----------|
|  | <b>2004</b>           | 2003   | 2003     |
|  | % p.a.                | % p.a. | % p.a.   |
| <b>Gross investment return and inflation</b> |                       |        |          |
| Fixed-interest securities                    | <b>10,4</b>           | 9,4    | 9,4      |
| Equities and offshore investments            | <b>12,4</b>           | 11,4   | 11,4     |
| Hedged equities <sup>(10)</sup>              | <b>9,4</b>            | 8,4    | 8,4      |
| Property                                     | <b>11,4</b>           | 10,4   | 10,4     |
| Cash   | <b>8,4</b>            | 7,4    | 7,4      |
| Risk discount rate                           | <b>12,9</b>           | 11,9   | 11,9     |
| Return on capital at risk <sup>(11)</sup>    | <b>11,0</b>           | 10,0   | 10,0     |
| Unit cost and salary inflation               | <b>6,4</b>            | 4,9    | 5,4      |
| Consumer price index inflation               | <b>4,9</b>            | 3,4    | 3,9      |

### 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 are 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.



|  | June unaudited<br>2004<br>% | 2003<br>%  | December<br>2003<br>% |
|--|-----------------------------|------------|-----------------------|
| <b>Long-term asset mix for assets supporting the capital at risk</b> |                             |            |                       |
| Equities   | 42                          | 42         | 42                    |
| Hedged equities  | 26                          | 26         | 26                    |
| Property   | 8                           | 8          | 8                     |
| Fixed-interest securities  | 20                          | 20         | 20                    |
| Cash   | 4                           | 4          | 4                     |
|  | <b>100</b>                  | <b>100</b> | <b>100</b>            |

|  | Six months unaudited<br>2004<br>R million | 2003<br>R million | Full year<br>2003<br>R million |
|--|---|-------------------|--------------------------------|
|--|---|-------------------|--------------------------------|

## 7. NEW BUSINESS PREMIUMS

### Financial statements

|  |              |              |              |
|--|--------------|--------------|--------------|
| New business premiums (per note 1 to financial statements)           | 5 367        | 4 884        | 10 012       |
| Less: Premium increases (index growth)                               | (289)        | (305)        | (643)        |
| Plus: Optional reduction in premiums                                 | 18           | 17           | 38           |
| Less: Other life business <sup>(12)</sup>                            | (12)         | (133)        | (314)        |
| <b>Premiums used in the calculation of annual premium equivalent</b> | <b>5 084</b> | <b>4 463</b> | <b>9 093</b> |

### New business embedded value premiums

|  |              |              |              |
|--|--------------|--------------|--------------|
| Recurring premiums   | 454          | 484          | 1 026        |
| Single premiums  | 4 630        | 3 979        | 8 067        |
| <b>Premiums used in the calculation of annual premium equivalent</b> | <b>5 084</b> | <b>4 463</b> | <b>9 093</b> |

- (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 the value of in-force.)
- (3) The June 2004 value was calculated by multiplying half the projected full year corporate expenses not related to life business (after tax) of R52,5 million by the share price of 880 cents and dividing by the headline earnings per share based on the long-term rate of return of 72,1 cents.
- (4) The net value of new business for prior periods has been restated to include MIA and Innofin to enhance comparability. The embedded value earnings for these periods have, however, not been restated.
- (5) The main contributor to the operating experience variation was positive risk experience of R92 million. Expense savings contributed R20 million to the operating experience variation and R57 million to the operating assumption changes. It also gave rise to an improved new business embedded value margin.
- (6) The investment return on shareholders' adjusted net assets excludes the cost of treasury shares transferred to Ubuntu-Botho.
- (7) 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. The return per share is net of the dilution resulting from the Ubuntu-Botho transaction.
- (8) The rest of the world includes Sanlam Namibia and MIA.
- (9) APE (annual premium equivalent) is equivalent to new recurring premiums plus 10% of single premiums.
- (10) The assumed future return for these assets is lower than that of equities, which are not hedged, reflecting the cost of derivative instruments.
- (11) The investment return on assets supporting the capital at risk is based on the long-term asset mix for these funds.
- (12) The majority of profits in respect of these premiums accrue to Sanlam Investment Management.

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