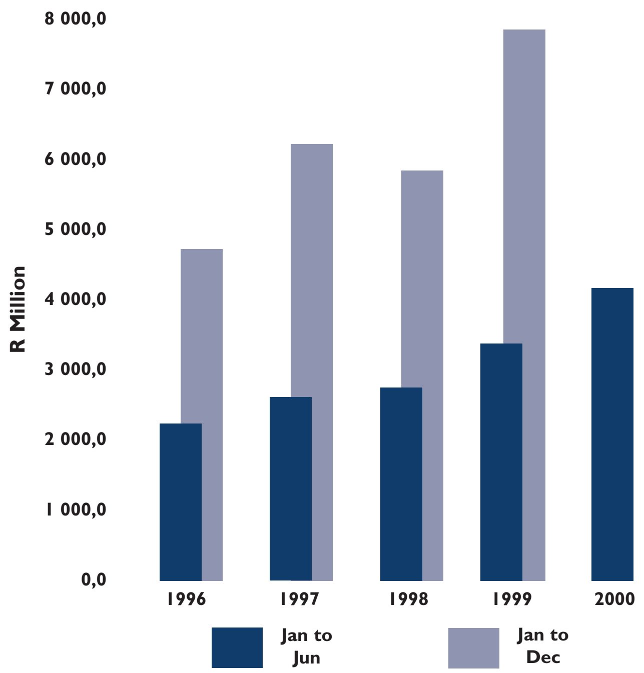
LIBERTY GROUP

interim 2000 results

Liberty Group Limited
(Incorporated in the Republic of South Africa)
(Registration no 1957/002788/06)
(Formerly Liberty Life Association of Africa Limited)

Interim results for the six months ended 30 June 2000

NEW BUSINESS PREMIUMS



Highlights

- Value of new business premiums up 23%
- New business premium volumes up 22%
- Recurring premium new business up 25%
- Bancassurance new business – R632 million up 58%
- Net cash inflows from insurance operations – R1,1 billion up 121%
- Disposal of interest in Liberty International – R3,9 billion
- Headline earnings and dividend per share up 10%

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During the period under review Liberty has been successful at making significant progress on issues which are within its control, such as new business sales, relative investment performance, customer service and management of the in-force insurance operations. These improvements continue to place Liberty amongst the leaders in the industry. In addition, with the sale of the majority of the shares in Liberty International PLC, further progress has been made on the Group's strategy to focus on financial services.

Notwithstanding Liberty Asset Management's (Libam's) good relative investment performance, the results of the Group for the six months to 30 June 2000 were adversely affected by poor investment markets, as described below under "Investment returns and impact on headline earnings".

Accounting policies and presentation

The accounting policies adopted for purposes of this interim report comply, in all material respects, with South African Statements of Generally Accepted Accounting Practice, as well as the South African Companies Act of 1973 and the Long-term Insurance Act of 1998. These policies are consistent with those applied at 31 December 1999, except for the reclassification of earnings on contingency and other reserves from "life fund operating surplus" to "earnings attributable to shareholders' funds" in respect of the current year earnings and comparative figures for 1999. This change in classification is a consequence of the transfer of the majority of "life fund contingency and other reserves" from life funds to shareholders' funds at the end of 1999, in order to more appropriately reflect the quantum of shareholders' funds.

The company has also adopted the new accounting statement on Intangible Assets (AC129) with effect from 1 January 2000. In terms of this statement, software development costs of R23 million have been capitalised as intangible assets for the six months ended 30 June 2000.

Presentation of the income statements so as to reflect continuing and unbundled operations has been retained in order to make comparison with 1999 more meaningful. Earnings from the Stanbic shares consequently unbundled in the second half of 1999, amounting to R56 million for the first half of last year, are included under unbundled operations.

Environmental factors

Nedcor/Stanbic outcome

Liberty actively supported Stanbic's defence against Nedcor's hostile takeover attempt, and welcomed Finance Minister Trevor Manuel's decision not to allow it to proceed. This has further strengthened Liberty's relationship with Stanbic. Liberty's access to a wider target market is now secure with Bancassurance continuing to show highly satisfactory growth.

Deployment of capital

At 30 June 2000 shareholders' funds amounted to R8 979 million. This is a reduction of R113 million or 1% from the level at 31 December 1999, caused primarily by a reduction in market value of the shareholders' investments in South African Breweries plc (R541 million) and Metro Cash and Carry (R220 million), offset by an increase in value of Liberty International (R311 million). Shareholders' assets are analysed in detail under "Analysis of shareholders' funds" .

Shareholder cash and near cash has increased to R2,8 billion in South Africa from R2,1 billion at 31 December 1999. Following the sale of shareholders' interests in Liberty International, the Liblife International B.V. Convertible Bond has now been fully covered by cash deposits in the UK of $259 million (R1,8 billion). In addition, $85 million (R0,6 billion) of the proceeds is being retained offshore and £145 million (R1,5 billion) will be repatriated to South Africa, both for policyholders' account.

With the uncertainty removed following the failure of Nedcor's hostile takeover attempt, opportunities are being investigated with a view to expanding the Group's financial services activities. An initial R100 million has been approved for the development over the next few years of the group's differentiated "personal financial supermarket" and personal financial planning e-commerce offering, "MyLife.co.za", which will be launched during September 2000.

Further investment in the healthcare industry is being continually evaluated to ensure that Liberty is optimally positioned in the highly regulated healthcare environment.

Disposal of interest in Liberty International PLC

On 14 August 2000, Liberty completed the sale of the majority of its stake in Liberty International PLC with the repurchase by Liberty International of a 29,8% interest in Liberty International from Liberty (21,3%) and Stanbic (8,5%), at a price of 575p per share. The offer from Liberty International was at a premium of 22% to the price prevailing prior to acceptance of an initial offer from British Land Company PLC to acquire the same shares. Liberty has disposed of its entire shareholders' interest in Liberty International (26,9 million shares) as well as 39,9 million shares held on behalf of policyholders, leaving intact a policyholder portfolio investment valued at R214 million (or 1,3% of Liberty International).

At 31 December 1999 the amount outstanding on the Liblife International B.V. 6½% Convertible Bond (maturity date of September 2004) of R1,56 billion exceeded the value of the shareholders' investment in Liberty International of R1,23 billion by R322 million. The receipt of £153 million (R1,6 billion) in cash on shareholders' account together with other cash held offshore has eliminated this negative offshore gearing position, with the value of the proceeds of the sale of the interest in Liberty International being equivalent to the amount that is currently outstanding under the convertible bond. The amount received on shareholders' account will be set aside in US Dollars to maintain the security required by the convertible bondholders in terms of the Keepwell Security Agreement entered into in 1999 in relation to these bonds.

The sale of the Liberty International shares has effectively unlocked a large proportion of the discount to net asset value of Liberty International shares for shareholders and policyholders which has prevailed for the past few years. This transaction creates further flexibility to pursue Liberty's stated strategy of focusing on financial services operations.

Income statement

New business premiums

Total new business premiums increased by 22% to R4,1 billion for the six months to 30 June 2000.

Recurring premiums increased by 25% from R0,7 billion for the six months ended 30 June 1999 to R0,9 billion for the six months ended 30 June 2000. This increase can be attributed to expansion of the sales force together with excellent new product offerings.

Single premiums increased by 21% from R2,7 billion for the first half of 1999 to R3,2 billion for the six months ended 30 June 2000. A feature of this growth has been the net inflow of Corporate Investment funds, with R0,8 billion being placed with Liberty for the six months ended 30 June 2000 (R0,4 billion for the six months ended 30 June 1999) largely as a result of renewed confidence in the investment performance of Libam.

Bancassurance

Total new business premiums generated through the Bancassurance relationship with Standard Bank for the six months to 30 June 2000 amounted to R632 million, 58% up on first half year 1999's R400 million. This performance demonstrates the ongoing successful development of the mutually beneficial Bancassurance arrangement.

Investment returns and impact on headline earnings

In sharp contrast with the buoyant markets experienced during the first half of 1999, international and local equity markets performed poorly during the first half of 2000. As has been well publicised, this contrasting performance has had a significant impact on the life fund operating surplus. The Group Chief Executive's Review of operations in the 1999 Annual report stated that "The Group's earnings from life fund operations are highly correlated to the performance of the JSE and world markets and earnings for 2000 will accordingly reflect the movements in these markets."

Notwithstanding these poor equity markets Libam has continued to deliver good relative investment performance with Liberty's largest internal managed fund, the "Preferred Assets Portfolio", maintaining its position within the first quartile of asset managers in its category during both the six and 12 months to 30 June 2000, as well as the three and five year periods.

The policyholders' equity portfolio return for the first six months of 2000 at -4,6% compares favorably to the JSE All Share Index return of -8,7% and the JSE ALSI 40 Index return of -7,1% over the same period.

Headline earnings

Headline earnings for the six month period ended 30 June 2000 of R720 million reflect an increase of 10% over the comparable period in 1999 of R652 million, and an increase of 10% per share (265,9 cents for the six months ended 30 June 2000 and 242,7 cents for the six months ended 30 June 1999). The rate of increase is directly attributable to the slightly reduced life fund operating surplus, reflecting the weak equity markets, offset by strong growth in revenue earnings.

Life fund operating surplus

Life fund operating surplus for the six months ended 30 June 2000 has been estimated by the company's Statutory Actuary based upon actual experience for the first half of 2000. The life fund operating surplus of R516 million for the six months to 30 June 2000 is 1% lower than the amount earned during the first half of 1999 of R519 million. This reduction is directly attributable to the poor equity investment markets experienced during the first half of 2000, as a large proportion of assets backing the life fund liabilities are in respect of linked business where shareholder earnings are dependent on the investment returns achieved.

The negative market performance of the policyholders' equity portfolio for the first half of 2000 at -4,6% compares with the exceptional equity markets experienced during the first half of 1999 when the equity portfolio earned +30%, reflecting a variance in return of 35%.

An increase in taxation as a result of changes to the four fund basis of taxation for life insurance companies which came into effect on 1 January 2000 has also had a dampening effect on the life fund operating surplus with tax on earnings from life fund operations increasing to R125 million from R14 million during the first half of 1999.

Premium income

Total premium income for the six months ended 30 June 2000 of R5,9 billion represents an increase of R0,7 billion or 14% over the R5,2 billion recorded in the first six months of 1999.

Recurring premiums of R2,8 billion for the first half year of 2000 continued to grow at 11%, the same rate as that achieved for 1999 over 1998.

Claims and policyholders' benefits

The reduced rate of increase in claims and policyholders' benefits (including lapses and surrenders), that first became evident during the third quarter of 1999 following significantly improved relative investment performance, has continued into the first half of 2000 with total claims and policyholder benefits increasing by only 3%.

Financial services subsidiaries

Income from financial services subsidiaries has increased by 66% from R35 million for the six months ended 30 June 1999 to R58 million for the current period under review. Most significant was the operating profit of Libam of R29 million for the six months ended 30 June 2000 against R7 million for the comparable six months of the previous year. This increase was largely the result of the review to a consistent market related level of the fees payable by Liberty Group companies.

A positive turnaround in Liberty Collective Investments' (formerly Guardbank) business is evidenced by the net inflow of funds of R1 363 million in the first half of 2000 against a figure of only R227 million in the same period last year.

MyLife.co.za has incurred start up losses of R3 million for the current period.

Listed investments

Earnings from shareholders' listed investments amounted to R91 million for the six months ended 30 June 2000 compared with R138 million for the six months ended 30 June 1999. The decrease is mainly attributable to the following two factors:

- Dividends amounting to R14 million were received from Guardian National in the first half of 1999 prior to Liberty's disposal of this investment in December 1999; and
- A 47,4% reduction in the holding in South African Breweries plc following the disposal in September 1999 of 27,5 million shares.

Other investments

Income on other shareholders' investments increased from R26 million for the six months ended 30 June 1999 to R141 million for the six months to 30 June 2000. The large increase is a direct result of the accumulation of shareholders' cash and near cash since September 1999. At 30 June 2000 R2,8 billion was invested in short term instruments yielding on average (a taxable) 10,5% per annum. Accordingly interest income of R122 million was earned during the six month period ended 30 June 2000 compared with virtually zero in respect of the six months ended 30 June 1999.

Taxation and Secondary Tax on Companies (STC)

The shareholders' taxation charge for the six months to 30 June 2000 amounted to R64 million compared with R30 million in respect of the six months ended 30 June 1999. The current period tax charge comprises R29 million STC and R35 million Income tax. STC in respect of the six months ended 30 June 1999 amounted to R25 million while Income tax amounted to only R5 million. The large increase in Income tax reflects the increase in taxable income resulting from the interest earnings on the accumulated cash resources.

Embedded value and value of new business

Embedded value

Embedded value increased by 3% despite the decline in investment markets for the six months to 30 June 2000. Embedded value at 30 June 2000 amounted to R14,3 billion or R52,63 per share. The embedded value is analysed in detail in the Embedded value and value of new business statement.

Value of new business

The value of new business written during the first six months of 2000 amounts to R208 million. This amount has been determined on the revised tax basis which became effective on 1 January 2000. The comparative number for 1999 on the new tax basis was R169 million. The increase of 23% compares with the increase in total new business volumes of 22% and the increase on the traditional index basis of 24%.

The 23% increase in value of new business was achieved despite the higher level of fees paid to Libam.

Prospects

The poor performance of investment markets during the six months to 30 June 2000 has dampened the life fund operating surplus. A large proportion of assets backing the life fund liabilities are in respect of linked business and consequently shareholder earnings are directly dependent on investment returns achieved.

During the second half of 1999, equity markets performed strongly, with the Liberty policyholders' equity portfolio increasing by 26,7%. This was on top of an increase of 30,1% already achieved to 30 June 1999. The total return in respect of the twelve months to 31 December 1999 amounted to 64,8%. Investment market performance during the second half of 1999 provides a formidable base for comparison during the second half of 2000. To date investment markets have not shown significant gains since 1 July 2000. Should investment markets not perform well through to year end, second half headline earnings are projected to show only modest growth on the level attained during 1999.

The Group will continue to focus on expanding its financial services operations locally and internationally as well as new business sales, investment performance, customer service and management of the in-force insurance operations.

Dividend declaration

The Board has declared a cash interim dividend of 133,0 cents per share in South African currency, payable to shareholders registered in the books of the company at the close of business on Friday, 1 September 2000. This represents a 10% increase on the interim dividend on continuing operations declared in respect of the six months to 30 June 1999 of 120,9 cents per share.

Payment in respect of dividends issued by the United Kingdom transfer secretaries will be converted from Rand to the Sterling equivalent on 8 September 2000. Dividend cheques will be posted on or about 15 September 2000.

Derek Cooper Chairman	Roy Andersen Group Chief Executive

15 August 2000

Related party transactions

Administrative and secretarial services

Liberty Group Limited provides certain administrative and secretarial services to its holding company, Liberty Holdings Limited, for which it is reimbursed at cost.

Banking arrangements

The group makes use of banking facilities provided by its ultimate holding company (Standard Bank Investment Corporation Limited). At 30 June 2000 substantially all of the cash and cash equivalents amounting to R822 million (30 June 1999: R262 million) were held with Stanbic. In addition, term deposits and other money market securities with Standard Bank amount to R499 million at 30 June 2000 (30 June 1999: R88 million). These deposits were made in the normal course of business at prevailing market rates.

Property lease agreements

Certain related parties of the Group are lessees in terms of arm's length property lease agreements with Liberty Group Properties (Proprietary) Limited, a subsidiary of Liberty Group Limited. Rentals and management fees received by Liberty Group Properties from related parties for the six months ended 30 June 2000 amount to R19 million (R16 million for the six months ended 30 June 1999).

SUMMARISED GROUP INCOME STATEMENT

	Continuing operations (unaudited) Six months ended 30 June 2000 Rm	1999 Rm	% Change	Unbundled operations (unaudited) Six months ended 30 June 2000 Rm	1999 Rm	Total operations (unaudited) Six months ended 30 June 2000 Rm	1999 Rm
Life fund operating surplus	**516**	519	(1)	**–**	–	**516**	519
Revenue earnings attributable to shareholders' funds	**204**	133	54	**–**	214	**204**	347
Headline earnings	**720**	652	10	**–**	214	**720**	866
Investment (deficits)/surpluses attributable to shareholders' funds	**(499)**	277		**–**	119	**(499)**	396
Total earnings including investment (deficits)/surpluses	**221**	929	(76)	**–**	333	**221**	1 262
Headline earnings per share (cents)	**265,9**	**242,7**	**10**	**–**	**79,7**	**265,9**	**322,4**
Total earnings including investment (deficits)/surpluses per share (cents)	**81,6**	345,9	(76)	**–**	124,0	**81,6**	469,9
Dividend per share (cents)	**133,0**	120,9	10	**–**	21,1	**133,0**	142,0
Number of ordinary shares in issue (000's)	**270 837**	269 863	–	**–**	269 863	**270 837**	269 863
Weighted average number of ordinary shares in issue (000's)	**270 685**	268 557	1	**–**	268 557	**270 685**	268 557

SUMMARISED GROUP BALANCE SHEET

	(unaudited) 30 June 2000 Rm	(audited) 31 December 1999 Rm
Capital, reserves and liabilities		
Shareholders' funds	**8 979**	9 092
Minority interests	**1**	2
Life funds	**56 428**	56 184
Convertible bonds	**1 730**	1 566
Retirement benefit obligations	**104**	98
Deferred taxation	**58**	193
Current liabilities	**2 031**	2 136
	69 331	69 271
Assets		
Investments	**61 746**	64 991
Office furniture, computer equipment and other tangible assets	**321**	316
Intangible assets	**22**	–
Goodwill	**10**	–
Current assets	**7 232**	3 964
Total assets	**69 331**	69 271
Assets under management by subsidiaries	**25 649**	29 678
Total assets under management	**94 980**	98 949

STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS

	(unaudited) 30 June 2000 Rm	(audited) 31 December 1999 Rm
Shareholders' funds at beginning of period	**9 092**	4 963
Dividends in specie (movement in carrying value of investments from 31 December 1998 to date of unbundling)		
Liberty International PLC		198
Standard Bank Investment Corporation Limited		(364)
Exchange difference		5
Total earnings including investment (deficits)/surpluses	**221**	2 567
Ordinary dividends		
Interim – continuing operations	**(360)**	(327)
Interim – unbundled operations		(56)
Final		(379)
Subscriptions for shares in respect of capitalisation share awards and staff share incentive schemes	**26**	170
Transfer from life fund contingency and other reserves		2 315
Shareholders' funds at end of period	**8 979**	9 092

SUMMARISED GROUP CASH FLOW STATEMENT

	(unaudited) Six months ended 30 June 2000 Rm	(unaudited) Six months ended 30 June 1999 Rm
Cash flow from continuing operating activities	**1 361**	420
Net purchase of investments	**(1 452)**	(691)
Cash flow from financing activities	**84**	(70)
Net decrease in cash and cash equivalents	**(7)**	(341)
Cash and cash equivalents at beginning of period	**734**	603
Foreign exchange movements on cash balances	**95**	–
Cash and cash equivalents at end of period[1]	**822**	262

[1] Excludes term deposits and money market securities.

EMBEDDED VALUE AND VALUE OF NEW BUSINESS

Embedded value

	30 June 2000 Rm	31 December 1999 Rm	% Change
Shareholders' funds	**8 979**	9 092	(1)
Net value of life business in force	**4 395**	4 756	(8)
Value of life business in force	**4 405**	4 765	(8)
Cost of solvency capital	**(10)**	(9)	11
Financial services subsidiaries fair value adjustment[1]	**881**		
Total embedded value	**14 255**	13 848	3

[1] During the period under review, investment management fees paid by the Liberty Group to Libam were reviewed to a consistent market related level. This review has resulted in reduced future profit streams in the life fund and has accordingly reduced the embedded value of in-force business. In previous financial statements, financial services subsidiaries were included at a value of the tangible net assets as shown in the balance sheet and no attempt was made to reflect fair value. A fair value has now been reflected in respect of all financial services subsidiaries amounting to R881 million.

Value of new business

	Six months ended 30 June 2000 Rm	Six months ended 30 June 1999 Rm	% Change
Value of new business written during the period			
New tax dispensation	**208**	169	23
Previous tax dispensation	**–**	178	

The embedded value consists of the shareholders' net assets valued at fair value together with the discounted value of the projected stream of future after-tax shareholder profits arising from business in force at the valuation date. The risk discount rate and other economic assumptions used are consistent with the actual market conditions in the South African economy as at 30 June 2000 with the more significant assumptions being:

	30 June 2000 %	31 December 1999 %
Government stock rate	**14,75**	14,25
Equity return	**16,75**	16,25
Risk discount rate	**16,75**	16,25
Expense inflation rate	**11,25**	11,25

ANALYSIS OF SHAREHOLDERS' FUNDS

	Book value of funds invested as at (unaudited) 30 June 2000 Rm	(audited) 31 December 1999 Rm	Net revenue earned (unaudited) Six months ended 30 June 2000 Rm	30 June 1999 Rm	Investment (deficits)/surpluses (unaudited) Six months ended 30 June 2000 Rm	30 June 1999 Rm
Financial services activities	**996**	956	**58**	35	**(35)**	126
Listed investments	**2 628**	4 700	**91**	138	**(488)**	(15)
South African Breweries	**1 933**	2 482	**50**	85	**(541)**	(102)
Metro Cash and Carry	**330**	688	**6**	5	**(220)**	118
Liberty International	**–**	1 235	**30**	24	**311**	(72)
Edgars	**154**	181	**2**	1	**(27)**	95
Other	**211**	114	**3**	23	**(11)**	(54)
Other investments	**5 355**	3 436	**141**	26	**24**	166
Cash and near cash	**2 790**	2 096	**122**	–	**–**	–
Proceeds due on sale of Guardian National	**–**	646	**–**	–	**–**	–
Proceeds on sale of Liberty International	**1 559**	–	**–**	–	**–**	–
Liblife (Jersey)	**(1 531)**	(1 557)	**(58)**	(51)	**(160)**	63
Other	**2 537**	2 251	**77**	77	**184**	103
Management expenses			**(21)**	(29)		
Taxation			**(65)**	(37)		
	8 979	9 092	**204**	133	**(499)**	277

ANALYSIS OF NEW BUSINESS SALES

	Single premiums (unaudited) Six months ended 30 June 2000 Rm	1999 Rm	Recurring premiums (unaudited) Six months ended 30 June 2000 Rm	1999 Rm	Total premiums (unaudited) Six months ended 30 June 2000 Rm	1999 Rm	% Change
Personal Benefits	**2 420**	2 259	**709**	574	**3 129**	2 833	11
Corporate Benefits	**819**	414	**143**	107	**962**	521	85
Total new business	**3 239**	2 673	**852**	681	**4 091**	3 354	22
Change	**21%**		**25%**		**22%**		
New business index					**1 176**	948	24

NET CASH INFLOWS FROM INSURANCE OPERATIONS

	Personal Benefits (unaudited) Six months ended 30 June 2000 Rm	1999 Rm	Corporate Benefits (unaudited) Six months ended 30 June 2000 Rm	1999 Rm	Total (unaudited) Six months ended 30 June 2000 Rm	1999 Rm	% Change
Total premium income	**4 488**	4 138	**1 430**	1 041	**5 918**	5 179	14
Single premiums	**2 297**	2 162	**822**	503	**3 119**	2 665	17
Recurring premiums	**2 191**	1 976	**608**	538	**2 799**	2 514	11
Total claims and policyholders' benefits	**(3 571)**	(3 700)	**(1 290)**	(1 000)	**(4 861)**	(4 700)	3
Net premium/ benefit cash flow	**917**	438	**140**	41	**1 057**	479	121

COMMITMENTS

	(unaudited) 30 June 2000 Rm	(audited) 31 December 1999 Rm
Estimated amounts of commitments for future expenditure	**223**	133
Under contracts	**116**	129
Authorised by the directors but not contracted	**107**	4

The expenditure will be financed by existing cash resources and funds internally generated.

Strategic objectives

The strategies as previously publicised for 2000 continue to be the focus of attention.

Goals set out for 2000 financial year:

- Re-deploy cash and other shareholder investments by focusing on core financial services.
  Interest in Liberty International disposed of.
  Options for deployment of cash resources being evaluated.
- Focus on the upper income market.
  Satisfactory new business acquired from this market segment.
- Leverage Liberty Asset Management's research to expand the product range.
  Innovative and successful products brought to market.
- Expand the Corporate Benefits Business Unit.
  Corporate Benefits new business up 85%.
- Achieve critical mass in Liberty Healthcare.
  The healthcare environment is becoming restrictively regulated.
  Future plans dependent on legislative certainty.
- Acquire further distribution for emerging markets.
  The strengthened Bancassurance relationship with Stanbic will be the prime distribution channel for access to the emerging market.
- Implement structures to deliver enhanced offshore products.
  New structures being implemented.
- Develop a differentiated offering through electronic commerce.
  MyLife.co.za to be launched in September 2000.

LIBERTY

"You're at liberty to write your own life story"