LIBERTY GROUP LIMITED

REVIEWED PRELIMINARY RESULTS FOR THE YEAR ENDED 31 DECEMBER 2005

Financial performance

for the year ended 31 December 2005

Comparatives include Capital Alliance for nine months where appropriate

IFRS: International Financial Reporting Standards

	2005	Adjusted [5] 2004	% change
Indexed new business (Rm)	**4 870**	4 336	12
New business margin before SOI[1] impact (%)	**23**	24	
Net cash inflows from insurance operations (Rm)	**5 726**	3 186	80
BEE normalised headline earnings per share before IFRS adjustments and SOI provisions[2] (cents)	**665,4**	465,3	43
Headline earnings per share[3] (cents)	**731,2**	459,7	59
Management expenses (Rm)	**3 612**	3 370	7
Normalised management expenses[4] (Rm)	**3 089**	3 079	0
BEE normalised embedded value per share before SOI provisions[2] (R)	**75,56**	63,72	19
Embedded value per share (R)	**75,96**	65,07	17
Statutory capital adequacy requirement cover (times covered)	**2,0**	2,5	
Final dividend per share (cents)	**224**	153	46
Total dividend per share (cents)	**350**	315	11
Capital reduction (cents per share)	**360**		
Return on embedded value (%)	**22**	19	

[1] SOI – statement of intent signed between National Treasury and the life offices regarding minimum values on savings products.

[2] BEE normalised headline earnings per share and BEE normalised embedded value per share are shown after adjusting the accounting treatment required for statutory financial statement purposes to reflect the economic reality of the BEE transaction.

[3] In compliance with International Financial Reporting Standards (IFRS).

[4] IFRS adjustments (mainly share based payment costs) and restructuring, integration and other non-recurring expenses are excluded.

[5] Adjusted where appropriate for nine months of Capital Alliance Holdings Limited and IFRS restatement.

Commentary on results

2005 could well be regarded as a significant turning point in the life assurance industry. A number of unfavourable rulings against life assurance companies (including Liberty Life) by the Pension Fund Adjudicator (PFA), coupled with a wave of negative sentiment towards life assurers from the media and consumers themselves, led to a long overdue rethink as to how to reposition our business model in future. The PFA rulings and statement of intent (SOI) are dealt with in more detail below. What has been encouraging is that in spite of the negative perceptions surrounding the industry, Liberty Life nevertheless managed to turn in a very good performance for the 2005 financial year with significantly increased cash flows.

Performance highlights

Indexed new business premiums increased by 12% to R4 870 million at an overall margin of 20% (23% before SOI impact – see below) on a like for like basis, which is at the high end of the stated target range of 18% to 22%. Net cash inflows from insurance operations amounted to R5,7 billion – the highest level to date. In addition, STANLIB and Liberty Ermitage net cash inflows amounted to R13,3 billion and R0,4 billion ($69 million) respectively.

Recurring management expenses of the group were flat on a like for like basis and maintenance costs per policy for all the life insurance companies in the group were largely within actuarial assumptions. Liberty Life's renewal cost per policy increased by 4% to R258 from the R248 reported at 31 December 2004. Liberty Active's cost per policy decreased from R154 per policy to R139. Capital Alliance's cost per policy for complex products increased by 2% from R217 at 31 March 2005 to R221 and for simple products from R80 at 31 March 2005 to R98. Restructuring and integration costs amounted to R184 million for the year, R36 million lower than the projection given to analysts and investors in November 2005. Other non-recurring costs of R15 million include inter alia the increase in the post-retirement medical liability and fees paid in respect of the bond issue.

Notwithstanding a R321 million after tax SOI provision in respect of Liberty Life and Liberty Active, BEE normalised headline earnings per share before IFRS adjustments of 549,8 cents were 18% higher than the comparable number in 2004. This would have been 665,4 cents or 43% higher before accounting for the SOI provision. Capital Alliance Holdings Limited's (CAHL) SOI provision of R85 million has been expensed in the income statement as part of the goodwill impairment arising on acquisition of CAHL. These provisions, together with a further amount of R193 million in respect of the SOI which has reduced the value of in-force business, amount to R599 million – the total negative impact of the SOI on the group's embedded value.

Strong operational results were complemented by the positive impact of buoyant investment markets for 2005. The weighted average investment return used as a proxy to calculate shareholders' 10% share of policyholder capital bonuses on certain classes of business was 33,2% at 31 December 2005 compared with 22,7% at 31 December 2004.

Commentary on results

continued

BEE normalised headline earnings per share before IFRS and SOI	**2005 Rm**	2004 Rm	% change
Operating profit from insurance operations before IFRS and SOI	**1 308**	827	58
Operating profit from insurance operations per financial statements	**942**	841	12
IFRS adjustments	**45**	(14)	
SOI provision	**321**	0	
Operating profit from shareholders' funds before IFRS and SOI	**451**	425	6
Operating profit from shareholders' funds per financial statements	**899**	409	
IFRS adjustments	**(448)**	16	
Net income on BEE preference shares accounted for in equity	**88**	31	
BEE normalised headline earnings before IFRS and SOI	**1 847**	1 283	44
BEE normalised weighted average number of shares in issue	**277,6**	275,7	1
Weighted average number of shares in issue	**251,8**	271,9	(7)
Reinstatement of BEE shares	**25,8**	3,8	
BEE normalised headline earnings per share before IFRS and SOI	**665,4**	465,3	43

BEE normalised embedded value per share of R73,41 was 15% higher than at 31 December 2004. The total impact on BEE normalised embedded value of the SOI provisions was R599 million or R2,16 per share, comprising R406 million provided through the income statement and a R193 million reduction in value of in-force. In terms of new actuarial guidance on embedded value calculations, known future non-recurring costs of R216 million after tax have been allowed for in the calculation following our announcements in November regarding restructuring and integration costs. This deduction from BEE normalised embedded value amounts to R0,78 per share. The goodwill impairment associated with the CAHL acquisition of R312 million before the SOI has reduced embedded value per share by R1,12. Before taking these exceptional items into account, BEE normalised embedded value per share would have increased by 22% to R77,47.

A final dividend for 2005 of 224 cents per share (153 cents per share in 2004), has been declared in line with the group's newly adopted dividend policy, as communicated in the 2004 year end results. The total dividend for the year of 350 cents per share reflects an increase of 11% (in line with the current estimated medium term growth rate of our embedded value after payment of normal dividends) on the total 2004 dividend of 315 cents per share.

Capital reduction

The Capital Adequacy Requirement (CAR) cover ratio decreased from 2,5 times at 31 December 2004 to 2,0 times at 31 December 2005, mainly as a result of the acquisition of CAHL, higher Lifestyle Protector (risk product) sales, offset to an extent by increased excess assets on a statutory basis. A target CAR cover level of 1,7 times results in excess capital of approximately R1,1 billion. Therefore a capital reduction of R1 billion or R3,60 per share will be paid out of the share premium account, subject to shareholder and regulatory approval. The total payout to shareholders for the 2005 year will therefore amount to R7,10 per share. Further details will be contained in the notice of the group's annual general meeting to be posted to shareholders before 31 March 2006. As a result of this capital reduction the estimated medium term growth rate of embedded value (to determine the 2006 ordinary dividend) will be applied to a re-based 2005 dividend of 325 cents per share in order to recognise the impact on earnings as a result of the reduction in capital.

Significant events in 2005

In April 2005 CAHL was purchased for R3,1 billion. The major focus for the remainder of 2005 was to ensure a swift and smooth merging of the businesses and staff of CAHL and Liberty Life. By the end of September CAHL staff had moved from its head office into Liberty Centre. During this process the company's business model was restructured to position it to serve both intermediaries and policyholders more effectively and efficiently. This caused a certain amount of disruption compounded by the PFA rulings – but by and large the new model has been implemented and the benefits thereof are beginning to be extracted. In a SENS announcement issued on 23 November 2005, it was indicated that the expected sustainable savings could be in the order of R300 million per annum from 2008 onwards.

The company was the first South African life assurer to issue a capital qualifying listed corporate bond. Applications for over R4,0 billion were received and consequently the full amount of R2,0 billion was raised and has been used to fund working capital requirements.

Liberty Life was elected winner of both categories of awards for life assurers (individual and corporate) at the SAFSIA awards ceremony. This is the first time that the largest intermediary body has made both awards in the same year to one company.

During the course of last year we initiated the disposal of our offshore asset manager, Liberty Ermitage, and the Australian life assurance business, Prefsure, which we acquired through the acquisition of CAHL. Hightree (a small UK distribution business) was disposed of late in 2005. The sale process relating to Liberty Ermitage continues and hopefully will be completed shortly while we have signed a sale agreement for Prefsure.

Liberty Active

Project Khula was launched within Liberty Active during the course of 2005 to focus on the lower to middle income segments of the market. Subsequent to the purchase of CAHL, the project Khula sales force was integrated with CAHL work site marketing. A comprehensive review of both CAHL and Liberty's entry level market products was undertaken and resulted in a simple, streamlined range of value for money risk products at the lower end of the market. The challenge for the coming year is to ensure efficient distribution of these products to those who have a real need for them. In keeping with our philosophy of providing the right product for the right markets, we are re-evaluating the sale of savings products to this end of the market.

Pension Fund Adjudicator (PFA) rulings and the statement of intent (SOI)

There was a constant stream of negative publicity around the life assurance industry during the course of last year, fuelled primarily by the media and numerous negative rulings against various companies within the industry by the PFA. Whilst there were many aspects of the PFA rulings with which we clearly disagreed, many of the issues he dealt with and rulings he made had merit. Whether or not they were legally defensible was less of an issue to us as whether or not the past practices could be seen as fair, in the light of the environment in which we now find ourselves.

Commentary on results

continued

Under the auspices of the LOA extensive discussions took place, both internally and with outside interested parties such as the National Treasury and the Financial Services Board, around reforming the savings products in the industry – but any solution had to take into account not only the future, but also the existing in-force books of the life assurers, as well as business on the books which had already terminated prior to the maturity of the contracts. The discussion culminated in a December 2005 meeting and the signing of a SOI by the five largest life office members of the LOA and the Minister of Finance.

Full provision has been made at 31 December 2005 for the minimum values of savings products as contemplated in the statement of intent. This has had a negative once-off impact of R599 million on the group's embedded value.

STANLIB

STANLIB has had its best financial year since its formation in 2002. Profit before tax and interest exceeded R400 million and assets under management grew by 27% to R276 billion as at 31 December 2005. Performance in the equity markets continued to improve both in absolute terms and relative to its peers. The Alexander Forbes Global Manager Watch survey placed STANLIB third for the year ended 2005, with its preferred asset portfolio returning 34,6% for the year. Costs were well controlled and the company is budgeting for good growth in assets and profitability in the coming year.

Dividend

In line with the group's dividend policy communicated to shareholders at 31 December 2004, a final dividend of 224 cents has been declared, bringing the total dividend for the year to 350 cents. This represents an 11% increase on the 2004 total dividend of 315 cents.

The important dates pertaining to this dividend are:

Last day to trade cum dividend on the JSE	Friday, 31 March 2006
First trading day ex dividend on the JSE	Monday, 3 April 2006
Record date	Friday, 7 April 2006
Payment date	Monday, 10 April 2006

Share certificates may not be dematerialised or rematerialised between Monday, 3 April 2006 and Friday, 7 April 2006 both days inclusive. Where applicable, dividends in respect of certificated shareholders will be transferred electronically to shareholders' bank accounts on payment date. In the absence of specific mandates, dividend cheques will be posted to shareholders. Shareholders who have dematerialised their shares will have their accounts with their CSDP or broker credited on Monday, 10 April 2006.

Events after balance sheet date

The sale of Prefsure for AUS$145 million was announced in January 2006. There are still a number of regulatory and other conditions precedent that need to be met. We are confident that completion will occur on or around 31 March 2006.

It was announced by the chairman of the board on 21 February 2006 that Myles Ruck, Chief Executive of Liberty would be stepping down effective 31 May 2006 and that Bruce Hemphill would be appointed Chief Executive effective 1 June 2006.

Prospects

We do not expect the same high level of performance from the financial markets in 2006 that we have enjoyed in 2005. However the domestic economic outlook remains favourable and we believe that our actuarial assumptions for the 2006 year will be met. While BEE normalised headline earnings may be lower in 2006 due to the impact of a potential lower financial market performance for 2006, real growth in BEE normalised embedded value and dividends (after re-basing these respective numbers to allow for the capital reduction of 360 cents per share) should be achieved.

Audit opinion

PricewaterhouseCoopers Inc., has reviewed the group financial statements and audited the embedded value statement for the year ended 31 December 2005. Copies of the auditors' unqualified review report on the group financial statements and unqualified audit opinion on the embedded value statement for the year ended 31 December 2005 are available for inspection at the company's registered office.

Myles Ruck
Chief Executive

Derek Cooper
Chairman

1 March 2006

Liberty Group Limited
"Liberty Life"
Incorporated in the Republic of South Africa
(Registration number: 1957/002788/06)
Alpha code: LGL
Issuer code: LIBU
ISIN code: ZAE000057360

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Merrill Lynch
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Merrill Lynch South Africa (Pty) Ltd
Registration number 1995/001805/07
Registered Sponsor and Member of the
JSE Securities Exchange South Africa

Summarised group balance sheet

as at 31 December 2005

	2005 Rm	As restated under IFRS 2004 Rm
Assets		
Investments	**145 449**	103 619
Intangible assets	**1 534**	331
Disposal groups held for sale [3]	**2 380**	–
Prepayments, insurance and other receivables	**2 747**	3 161
Cash and cash equivalents	**12 313**	6 057
Other assets	**1 641**	836
Total assets	**166 064**	114 004
Liabilities		
Policyholders' liabilities [1]	**140 835**	97 993
Insurance contracts	**103 979**	65 972
Investment contracts	**36 856**	32 021
Financial liabilities at amortised cost	**2 200**	-
Third party liabilities arising on consolidation of mutual funds	**4 877**	3 523
Deferred taxation[1]	**2 454**	1 232
Disposal groups held for sale [3]	**1 267**	–
Insurance and other payables	**3 609**	2 049
Other liabilities	**1 221**	680
Total liabilities	**156 463**	105 477
Equity		
Ordinary shareholders' interests	**9 434**	8 526
Minority interests	**167**	1
Total equity	**9 601**	8 527
Total equity and liabilities	**166 064**	114 004
Capital adequacy requirements		
Statutory capital adequacy requirement (CAR) [2]	**3 782**	3 013
CAR cover	**2,0**	2,5

[1]In compliance with IAS 12 Income taxes, deferred tax has been provided at the use rate in respect of revaluation surpluses on investment properties held as long term strategic investments. This has lead to increased deferred tax provisions amounting to R769 million (2004: R549 million) as a result of using the income tax rate in certain circumstances as opposed to the capital gains tax rate used previously. The Board believes that the additional deferred tax liability, which has been debited to policyholders' liabilities for accounting purposes, does not reflect economic reality as the fair (open market) values of the investment properties already discount the income tax consequences in respect of rental income. The additional deferred tax liability does therefore not affect policyholders' values and is reversed for statutory reporting purposes to the Financial Services Board.

[2]Previously the capital adequacy requirement (CAR) and the CAR cover ratio were quantified using values as published in the financial statements. With the implementation of IFRS and the divergence of published accounting and statutory (regulatory) bases, these measures are now reported on the statutory (regulatory) basis.

[3]Disposal groups held for sale include the total assets and liabilities in respect of Liberty Ermitage Jersey Limited and Prefsure Holdings Limited.

Summarised group income statement

for the year ended 31 December 2005

	2005 **Rm**	As restated under IFRS 2004 Rm
Net insurance premiums, management and service fees	**20 145**	13 481
Investment returns	**31 671**	18 827
Total revenue	**51 816**	32 308
Net insurance benefits and claims	**(14 020)**	(9 405)
Transfer and fair value adjustment to policyholder liabilities	**(25 630)**	(14 376)
Fair value adjustment on third party mutual fund liabilities	**(1 354)**	(1 028)
Acquisition costs associated with insurance and investment contracts	**(3 594)**	(1 920)
Expenses	**(3 693)**	(2 919)
Preference dividend in subsidiaries	**(138)**	(102)
Goodwill impairment	**(397)**	–
Loss on sale of subsidiary	**(2)**	–
Equity accounted earnings from joint ventures	**91**	73
Profit before taxation	**3 079**	2 631
Taxation	**(1 623)**	(793)
Total earnings	**1 456**	1 838
Attributable to:		
Equity holders	**1 442**	1 838
Minority interest	**14**	–
	1 456	1 838
Reconciliation of total earnings		
Headline earnings	**1 841**	1 250
Insurance operations	**942**	841
Shareholders' fund investments	**899**	409
Non-headline earnings	**(399)**	588
Total	**1 442**	1 838
Earnings per share	**Cents**	Cents
Basic earnings	**572,8**	675,9
Fully diluted	**560,4**	666,7
Headline earnings	**731,2**	459,7
Reconciliation of headline earnings		–
Total earnings attributable to equity holders	**1 442**	1 838
Goodwill impairment	**397**	–
Loss on sale of subsidiary	**2**	–
Net realised investment gains on available for sale designated assets	**–**	(588)
	1 841	1 250

Summarised statement of changes in group shareholders' funds

for the year ended 31 December 2005

	2005 Rm	As restated under IFRS 2004 Rm
Balance at 1 January	**8 527**	–
IFRS adjustments	**(2)**	–
Restated balance at 1 January	**8 525**	8 779
Total earnings	**1 456**	1 838
Minority interests arising from acquisition of CAHL	**161**	–
Net unrealised investment losses on available for sale assets	**–**	(57)
Ordinary dividends	**(773)**	(766)
Repayment of redeemable bonds	**–**	(79)
Subscription for shares	**69**	83
Black Economic Empowerment transaction	**71**	(1 273)
Share based payments	**45**	16
Owner occupied properties – net fair value adjustments	**94**	(14)
Reversal of fair value adjustment on CAHL existing shares	**(17)**	–
Treasury shares	**(25)**	–
Foreign currency translation	**(5)**	–
Shareholders' funds at 31 December	**9 601**	8 527
Ordinary shareholders' interests	**9 434**	8 526
Minority interests	**167**	1

Summarised group cash flow statement

for the year ended 31 December 2005

	2005 Rm	As restated under IFRS 2004 Rm
Operating activities	**7 748**	3 738
Investing activities	**(4 867)**	(417)
Financing activities	**2 068**	(2 731)
Net increase in cash and cash equivalents	**4 949**	590
Cash and cash equivalents at beginning of year	**6 057**	5 479
Net cash acquired on business acquisition and disposals	**1 444**	–
Reclassified to disposal groups held for sale	**(137)**	–
Foreign exchange movements on cash balances	**–**	(12)
Cash and cash equivalents at end of year	**12 313**	6 057

New business

for the year ended 31 December 2005

Comparatives include Capital Alliance for nine months

	Recurring premiums		Single premiums		Total premiums		
	2005	2004	**2005**	2004	**2005**	2004	
	Rm	Rm	**Rm**	Rm	**Rm**	Rm	% change
Individual	**2 924**	2 759	**10 797**	8 870	**13 721**	11 629	18
Group	**635**	531	**2 317**	1 588	**2 952**	2 119	39
Total new business	**3 559**	3 290	**13 114**	10 458	**16 673**	13 748	21
% Change	**8%**		**25%**		**21%**		
Indexed new business					**4 870**	4 336	12
Natural increases	**959**	846			**959**	846	13
Indexed new business excluding natural increases					**3 911**	3 490	12

Net cash flow from insurance operations

for the year ended 31 December 2005

Comparatives include Capital Alliance for nine months

	Individual business		Group business		Total	
	2005	2004	**2005**	2004	**2005**	2004
	Rm	Rm	**Rm**	Rm	**Rm**	Rm
Net premiums from insurance contracts and inflows from investment contracts	**20 792**	17 664	**6 499**	4 700	**27 291**	22 364
Net claims and benefits	**(15 844)**	(12 892)	**(5 721)**	(6 286)	**(21 565)**	(19 178)
Total net cash inflows	**4 948**	4 772	**778**	(1 586)	**5 726**	3 186

Excluding cash inflows of STANLIB and Liberty Ermitage amounting to R13 billion and R0,4 billion ($69 million) respectively.

Analysis of shareholders' funds invested

for the year endeed 31 December 2005

	Group funds invested 2005 Rm	Group funds invested 2004 Rm	Contribution to earnings 2005 Rm	Contribution to earnings 2004 Rm	Group investment gains/(losses) 2005 Rm	Group investment gains/(losses) 2004 Rm
Insurance operations	**1 019**	109	**914**	841		
Life fund operating surplus			**1 593**	956		
Present value of in force business acquired	**1 019**	109	**(90)**	(13)		
Liberty Active preference dividend			**(138)**	(102)		
Working capital charge [(1)]			**(130)**			
Statement of Intent – PFA rulings			**(321)**			
Financing of insurance operations	**683**	1 052	**65**			
Fixed assets and working capital	**2 883**	1 052	**130**			
Callable capital bonds and preference share liabilities	**(2 200)**		**(65)**			
Financial services operations	**449**	850	**149**	172	**2**	(16)
Trading portfolio		423	**7**	68		
Liberty Group Properties	**11**	4	**33**	24		
STANLIB	**406**	407	**107**	75		(15)
Other	**32**	16	**2**	5	**2**	(1)
Listed investments	**1 797**	2 269	**62**	94	**382**	652
Metoz		242		30	**28**	40
SABMiller	**120**	919	**9**	22	**84**	264
Other	**1 677**	1 108	**53**	42	**270**	348
Other investments	**4 540**	3 790	**254**	319	**228**	113
Cash, preference shares and mutual funds	**4 052**	2 287	**157**	202	**26**	54
Foreign assets				65		(32)
Redeemable bonds				(83)		37
Share of pooled portfolios	**373**	1 382	**54**	132	**102**	31
Unlisted investments	**115**	121	**43**	3	**100**	23
Disposal groups held for sale	**946**	456	**105**	46	**12**	(45)
Prefsure Holdings	**400**		**28**			
Liberty Ermitage Jersey	**546**	456	**77**	46	**12**	(45)
Administration expenses – shareholder allocation			**(163)**	(128)		
Normal taxation excluding insurance operations			**38**	(20)		
Secondary tax on companies			**(74)**	(74)		
Capital gains taxation on shareholder specific assets					**(133)**	(173)
Net investment gains			**491**	531	**(491)**	(531)
Goodwill impairment			**(397)**			
Loss on sale of Hightree Financial Services			**(2)**			
Total shareholders' funds	**9 434**	8 526	**1 442**	1 781	–	–
Earnings						
Recognised in income statement			**1 442**	1 838		
Recognised directly in equity [(2)]				(57)		
			1 442	1 781		

(1) With effect from 1 July 2005 Liberty Life established a working capital funding loan between insurance operations and shareholder assets, subsequently supported by the callable capital bonds issue. Inter divisional interest is charged at 8,93% nacm which is equivalent to the bond interest rate.

(2) Prior to the implementation of IFRS unrealised investment gains or losses on shareholder-designated assets were taken directly to equity. With effect from 1 January 2005 all gains and losses are taken to earnings.

Embedded value and value of new business

as at 31 December 2005

Group embedded value

	2005 Rm	Restated under IFRS 2004 Rm	As previously reported 2004 Rm
Risk discount rate	**10,00%**	10,75%	10,25%
Net worth	**8 279**	8 775	9 260
Shareholders' funds on published basis [21]	**9 434**	8 526	8 494
Adjustment of shareholders' funds from published basis [2]	**(1 236)**	(326)	
Financial services subsidiaries fair value adjustment [3]	**1 345**	875	875
Adjustment for carrying value of in force business acquired [4]	**(1 019)**	(109)	(109)
Allowance for fair value of share options [1]	**(245)**	(191)	
Net value of life business in force	**10 874**	7 544	7 607
Value of life business in force	**11 563**	8 157	8 193
Cost of solvency capital	**(689)**	(613)	(586)
Embedded value	**19 153**	16 319	16 867

Embedded value per share information

	2005	Restated under IFRS 2004	As previously reported 2004
Embedded value (Rm)	**19 153**	16 319	16 867
Number of shares in issue less shares in respect of the BEE transaction (millions)	**252,2**	250,8	250,8
Embedded value per ordinary share (R)	**75,96**	65,07	67,25
Embedded value before BEE impairment (Rm)	**20 404**	17 623	18 171
Number of shares including shares in respect of the BEE transaction (millions)	**277,9**	276,6	276,6
BEE normalised embedded value per share (R)	**73,41**	63,72	65,69

Value of new business and new business margins

	2005 Rm	2004 Rm
Net value of new business written in the year	**882**	815
Gross value of new business	**945**	970
Cost of solvency capital	**(63)**	(155)
New business index excluding natural increases	**3 911**	3 340
New business margin	**22,6%**	24,4%
Present value of future expected premiums	**26 902**	24 030
Value of new business as a percentage of future expected premiums	**3,3%**	3,4%

The value of new business is the value at the point of sale derived from the new business premium income net of contractual increases.

The value of new business shown above is prior to the adjustment in respect of the implementation of minimum values for savings products. The effect of this adjustment is to reduce the margin and is described under point 19 of the "bases, assumptions and additional information" section.

Embedded value profits

	2005 Rm	2004 Rm
Embedded value at the end of the year	**19 153**	16 867
Less capital raised	**(69)**	(83)
Plus dividends paid	**773**	766
Plus Black Economic Empowerment transaction [(1)]	**–**	1 273
Less restated embedded value at the beginning of the year	**(16 319)**	(15 817)
Embedded value profits	**3 538**	3 006
Return on net worth	**40%**	32%
Return on embedded value	**22%**	19%

[(1)] *Includes transaction costs of R22 million taken directly to equity*

Analysis of embedded value profits

An analysis of the components of embedded value profits for the year ended 31 December 2005 is summarised below.

	Net worth Rm	Net value of life business in force Rm	Embedded value Rm
Embedded value profits for the year			
Embedded value at the end of the year	8 279	10 874	19 153
Less capital raised	(69)	–	(69)
Plus dividends paid	773	–	773
Less restated embedded value at the beginning of the year	(8 775)	(7 544)	(16 319)
Embedded value profits	208	3 330	3 538
Components of embedded value profits			
Value of new business written in the year	–	882	882
Expected return on value of life business [8]	–	938	938
Expected net of tax profit transfer to net worth [11]	481	(481)	–
Operating experience variances [12]	(154)	131	(23)
Operating assumption changes [13]	62	(218)	(156)
Embedded value profits from operations	389	1 252	1 641
Investment return on net worth	1 073	–	1 073
Exchange rate movements	46	–	46
Investment variances	519	773	1 292
Changes in economic assumptions [14]	23	434	457
Changes in modelling methodology [15]	(437)	(166)	(603)
Value of in force acquired [16]	(945)	1 112	167
Changes in company tax rate [17]	–	118	118
Change in allowance for fair value of share options [18]	(54)	–	(54)
Implementation of minimum values for savings products [19]	(406)	(193)	(599)
Total embedded value profits	208	3 330	3 538

Embedded value and value of new business

continued

Bases, assumptions and additional information

1. The restatement of the embedded value at 31 December 2004 can be broken down into the following components:
   - Changes as a result of using the Statutory Valuation Method rather than the published basis previously used to determine the emergence of profits. This resulted in a total increase of R11 million to the embedded value (see note 2 below).
   - Changes as a result of the increase in the margin of the risk discount rate over the equity investment return. This resulted in a decrease of R368 million to the embedded value.
   - Allowance for the fair value of share options outstanding as at the valuation date. This resulted in a decrease of R191 million to the embedded value.
2. The amounts of R1 236 million and R326 million reflected as the adjustment of shareholders' funds from the published basis, represent the change in these assets as a result of moving from a published valuation basis to the statutory valuation method. This is largely due to the elimination of certain negative rand reserves on the statutory valuation basis. The reduction in net worth results in a corresponding increase in the value of in force.
3. The published value of financial services subsidiaries is enhanced for embedded value purposes to essentially hold these subsidiaries as a multiple of earnings. This adjustment is shown as the "financial services subsidiaries fair value adjustment".

   This adjustment consists of the following:

	31 December 2005 Rm	31 December 2004 Rm
Liberty Group Properties (Proprietary) Limited	**300**	240
Liberty Ermitage Jersey Limited	**305**	290
STANLIB Limited	**710**	345
Prefsure Holdings Limited	**30**	–
	1 345	875

   In the case of Liberty Group Properties (Proprietary) Limited, Liberty Ermitage Jersey Limited and STANLIB Limited, a price earnings ratio multiplier was applied to the net after taxation recurring earnings of the subsidiaries. In all cases a multiplier of 10 was used (2004: 10). In the case of STANLIB Limited the R710 million represents Liberty Life's share of the excess over the net asset value of STANLIB Limited and effectively values STANLIB Limited at R 2,7 billion in total.

   The R30 million for Prefsure Holdings Limited represents the excess of the net sale proceeds over the value at which Prefsure is currently held, being cost plus retained earnings since acquisition.

Bases, assumptions and additional information (continued)

4. The carrying value of business acquired by Liberty Life (analysed below) has been deducted from shareholders' funds in order to avoid double counting. For embedded value purposes, the value in respect of this amount is included in the net value of life business in force.

	31 December 2005 Rm	31 December 2004 Rm
Investec Employee Benefits	**(96)**	(109)
Capital Alliance Holdings Limited (CAHL)	**(872)**	–
Business previously acquired by CAHL	**(51)**	–
	(1 019)	(109)

5. Future investment returns on the major classes were set with reference to the market yield on medium-term South African government stock. The investment returns used are:

	Investment return p.a.	
	2005	2004
Government stock	**7,50%**	8,25%
Equities	**9,50%**	10,25%
Property	**8,50%**	9,25%
Cash	**6,00%**	
6. The risk discount rate has been set equal to 0,5% in excess of the investment return on equity assets at 31 December 2005 and equal to the investment return on equity assets at 31 December 2004 (restated at 31 December 2005 to 10,75%)	**10,00%**	10,25%
7. Maintenance expense inflation rate	**4,00%**	4,25%

8. The expected return on the value of life business is obtained by applying the previous year's discount rate to the value of life business in force at the beginning of the year and the current year's discount rate for half a year to the value of new business.

9. Taxation has been allowed for at rates and on bases applicable to Section 29A of the Income Tax Act. Full taxation relief on expenses to the extent permitted was assumed. Capital Gains Taxation has been taken into account in the embedded value. Allowance has been made for future Secondary Taxation on Companies. No allowance has been made for the taxation changes announced in the Budget on 15 February 2006.

10. Other bases, bonus rates and assumptions:

    Parameters reflect best estimates of future experience, consistent with the valuation basis used by the statutory actuary, excluding any compulsory or discretionary margins. However, in contrast to the valuation basis assumption, the embedded value does make allowance for automatic premium and benefit increases.

11. The expected net of tax transfer to net worth includes a negative amount of approximately R575 million arising due to the new business strain experienced on the statutory valuation basis.

12. The amount of R23 million shown for operating experience variations arises from actual risk experience being better than expected but being offset by non-recurring expenses incurred. These non-recurring expenses amounted to R220 million (pre tax) for 2005 and were largely due to restructuring and integration costs (R184 million). The non-recurring expenses incurred in 2005 are included in the analysis of embedded value profits but do not form part of the future projections.

Embedded value and value of new business

continued

Bases, assumptions and additional information (continued)

13. The largest component of the amount of R156 million shown for operating assumption changes is an allowance for the first time in the embedded value for future non-recurring expenses of R316 million, planned to be spent on restructuring and integration costs. This R316 million discounted and net of tax amounts to R216 million. The positive balance of R60 million relates to changes to the withdrawal bases, a reduction in fees on certain portfolios of business as well as changes to the assumed rate of take-up of automatic contribution increases in respect of risk only products, offset by changes to mortality and policy extension assumptions.

14. The amount of R457 million shown for changes in economic assumptions arises from the change to a lower level of economic assumptions.

15. The amount of R603 million shown for changes in modelling methodology arises mainly from:

    - The establishment of a reserve, amounting to R340 million, in light of the move towards valuing embedded derivatives on a market consistent basis rather than a real-world basis.
    - Changes required to model commission more accurately as well as removing inconsistencies between best estimate and valuation cash flows.

16. The amount of R167 million shown for value of in force acquired reflects the difference between the carrying value established on an accounting basis at the date of acquisition of CAHL and the value of in force calculated at the same date.

17. The amount of R118 million shown for change in company tax rate arises from the change in the corporate tax rate from 30% to 29%.

18. The amount of R54 million in respect of the change in the fair value of share options arises from the change in the number of shares under option and the increase in the market value of the Liberty Life share price over the reporting period.

19. The amount of R599 million in respect of the implementation of minimum values for savings products reflects the impact of allowing for the minimum values required for savings products as per the Statement of Intent signed between the Life Offices Association and the National Treasury in December 2005.

    The amount of R882 million for the value of new business written in the year is prior to any allowance for these minimum values. The value of new business written in the year allowing for this effect is as follows:

	Rm
Value of new business written during the period	777
Gross of cost of solvency capital	858
Cost of solvency capital	(81)
New Business index excluding natural increases	3 911
New business margin	19,9%
Present value of future expected premiums	26 216
Value of new business as a percentage of future expected premiums	3,0%

20. The assets backing the Capital Adequacy Requirement (CAR) are 60% equities, 20% cash, 15% preference shares and 5% gilts (previously 50% equities, 25% cash and 25% preference shares).

21. Shareholders' funds on the published basis are stated after the full impairment of goodwill amounting to R397 million arising on the acquisition of CAHL at 1 April 2005.

Commitments

	2005 Rm	2004 Rm
Operating lease commitments		
Equipment	**64**	39
Within 1 year	**31**	14
1 to 5 years	**33**	25
6 to 10 years	**0**	0
Investment properties	**691**	793
Within 1 year	**79**	74
1 to 5 years	**344**	339
6 to 10 years	**268**	380
Capital commitments		
Capital Alliance Holdings Limited acquisition	**0**	3 047
Equipment	**288**	203
Under contracts	**248**	178
Authorised by the directors but not contracted	**40**	25
Investment properties under contracts	**0**	290
Total commitments	**1 043**	4 372

Related parties

There have been no significant changes to the nature of the related party transactions as described in note 29 to the 31 December 2004 annual financial statements. IFRS requires a more comprehensive disclosure of related party relationships which will be provided in the annual financial statements for 31 December 2005.

Accounting policies and presentation

The annual financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as well as the South African Companies Act, 1973.

These are Liberty Life's first IFRS annual financial statements and the provisions of IFRS 1 first-time adoption of International Financial Reporting Standards, have been applied.

Shareholders are referred to the unaudited interim results at 30 June 2005 regarding details of the financial restatement impact and accounting policy changes as a consequence of the IFRS adoption.

Acquisition of CAHL

On 1 April 2005, Liberty acquired 100% of the issued share capital of CAHL (excluding existing holdings), at a purchase price consideration of R3 047 million, utilising excess shareholder funds.

The summarised assets and liabilities arising from the acquisition are as follows:

Rm	**Total recognised values Rm**	**Value of in force acquired Rm**	**Net asset value Rm**
Investments	16 608	–	16 608
Intangible assets	1 467	1 331	136
Other assets	1 276	–	1 276
Insurance and other receivables	1 731	–	1 731
Cash and cash equivalents	1 445	–	1 445
Policyholders' liabilities	(17 817)	–	(17 817)
Financial liabilities at amortised cost	(200)	–	(200)
Minority interest	(161)	–	(161)
Other payables	(1 699)	(386)	(1 312)
Net identifiable assets and liabilities	2 650	945	1 705
Goodwill on acquisition	397		
Consideration paid	3 047		
Less cash acquired	(1 445)		
Net cash outflow	1 602		

The goodwill arose from the residual cost of the acquisition over the embedded value at acquisition date which could not be attributed to any other asset (no other intangibles existed.)

CAHL has adopted IFRS with effect from 1 April 2005.The relevant IFRS adjustments relating to CAHL have been incorporated into the assets and liabilities at acquisition.