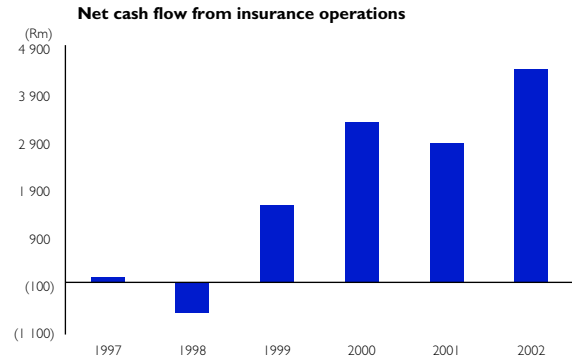
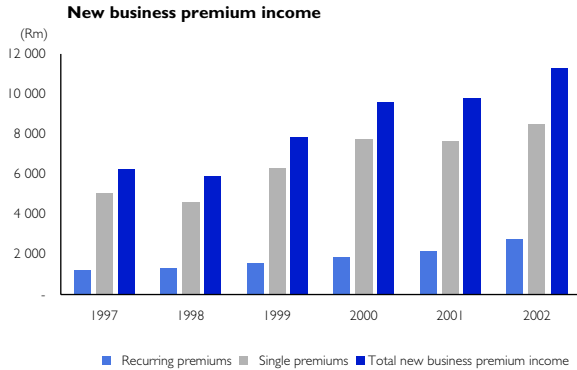


Indexed new business premiums	+23,5%
Bancassurance new business premiums	+90,5%
New business margin	20,3%
Increase in value of new business	+32,9%
Net insurance cash flows of R4,5 billion	+53,6%
Renewal cost per policy	-1,6%
Headline earnings per share – continuing operations	-28,9%
Due to:	
• Investment market conditions	
• Increased STC charges	
Embedded value per share of R55,28	+2,0%
Total ROE – continuing operations	13,9%

Key Features *(continued)*

Income statement features

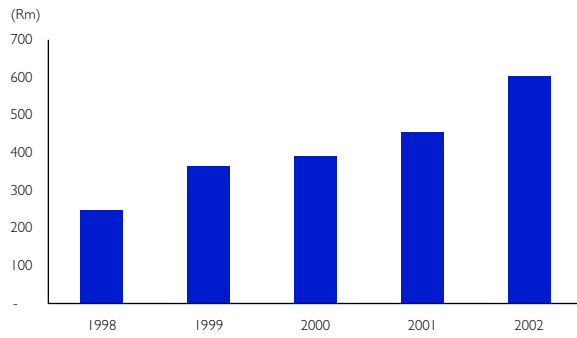


New business premium income has increased by 12,5% over 5 years (compounded annually). On an indexed basis (i.e. the sum of new recurring premiums plus 10% of new single premiums for the year), new business premiums reflect a 16,2% increase over 5 years (compounded annually). Recurring new business premiums increased by 18,1% and single new business premiums increased by 11,0% on the same basis. The increase in new business premium income resulted from continuous new product innovation, improved productivity in distribution channels and consistent gains in market share.

Net cash flows from insurance operations increased by 113,2% over 5 years (compounded annually). This increase, resulted from net premium income increasing by 11,5% over 5 years while total claims and policy-owners' benefits have increased only by 4,8%. The increase in net cash inflows reflects Liberty's underlying operational strength and the success of the customer value management (CVM) programme.

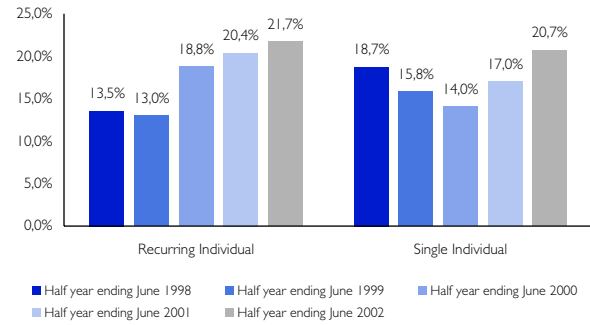
	2002	2001	% Change
Indexed new business (Rm)	3 634,2	2 943,6	23,5%
Life fund operating surplus (Rm)	889,1	1 319,7	(32,6%)
Net cash inflow from insurance operations (Rm)	4 501,3	2 930,6	53,6%
Management expense ratio - life insurance operations (%)	7,9	8,5	(0,6%)
Headline earnings per share on continuing operations (cents)	391,5	551,0	(28,9%)
Dividends declared per ordinary share - includes 2001 notional dividend (cents)	278,0	278,0	-

Value of new business written



The value of new business written has increased by 25,0% over 4 years (compounded annually) while the new business margin increased from 15,9% in 1998 to 20,3% in 2002. These increases resulted from reduced maintenance and acquisition costs per policy as well as increased focus and sales of products with higher margins.

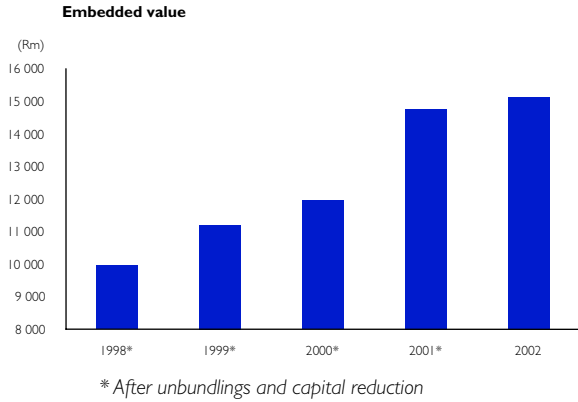
The Life Offices' Association of South Africa (LOA) market share statistics



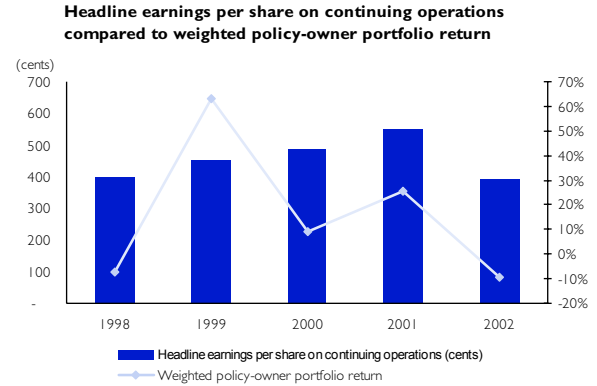
Consistent market share gains have been made by Liberty Group Limited and Charter Life Insurance Company Limited since June 2000. These gains are due to continuous product innovation, improved productivity in distribution channels and the success of the customer value management (CVM) programme.

Key Features *(continued)*

Balance sheet features



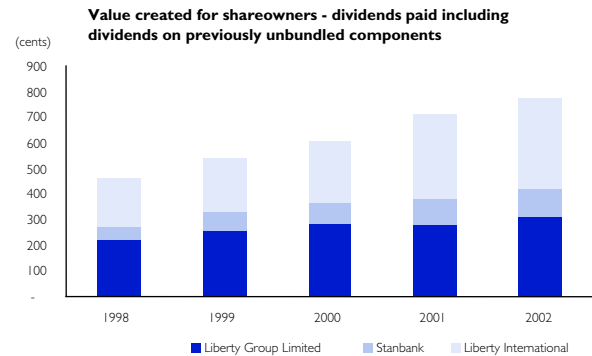
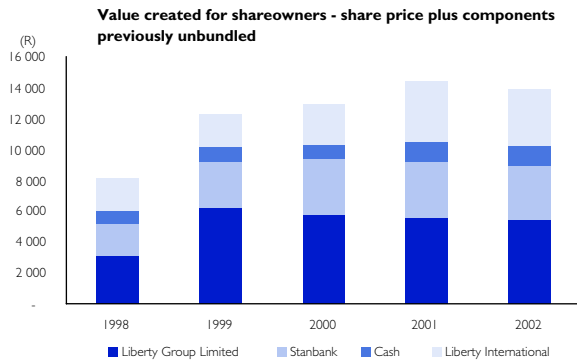
Embedded value increased by 11,0% over 4 years (compounded annually). During 2002 the effects of poor investment markets were offset by the strong operational performance of the life insurance operations.



Headline earnings per share on continuing operations decreased by 0,4% over 4 years (compounded annually). Shareowners earn 10% of capital bonuses declared to policy-owners on certain classes of business. The return on the weighted policy-owner portfolio (used as a proxy to determine the effect of shareowners' 10% participation) decreased from 25,3% in 2001 to -9,5% in 2002. The effect of investment returns on earnings was less apparent for the years 1998 to 2000 as contingency reserves were held in the life fund until 31 December 1999. During 2002 weak and volatile investment markets and the strengthening of the Rand resulted in a decrease in the life operating surplus. A higher secondary tax on companies (STC) charge was also incurred.

	2002	2001	% Change
Shareowners' funds (Rm)	8 588,1	8 345,8	2,9%
Life funds (Rm)	73 700,3	75 918,4	(2,9%)
Total assets (Rm)	86 260,1	89 401,4	(3,5%)
Capital adequacy cover (Times covered)	3,0	3,5	(14,3%)

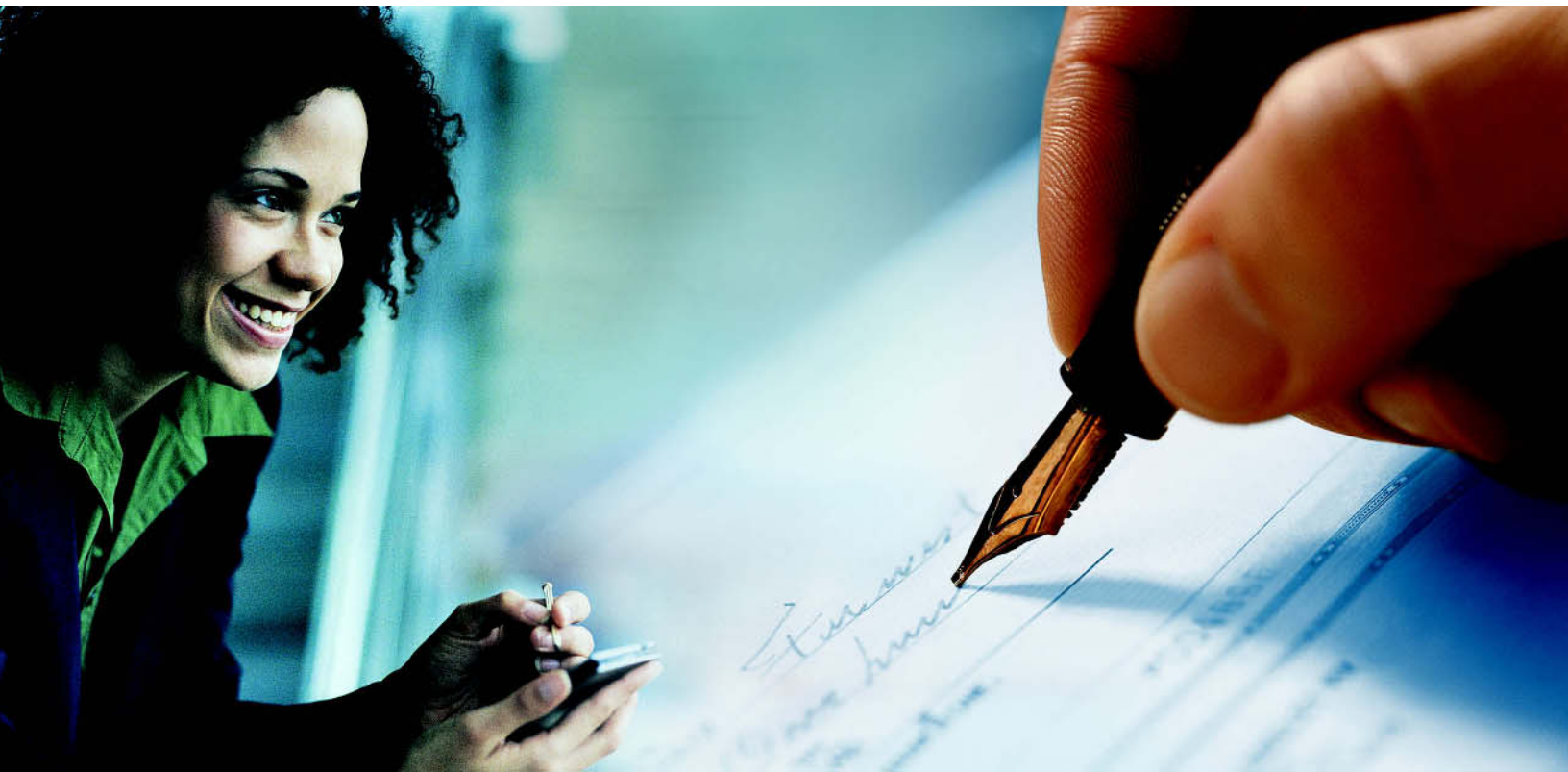
Key financial indicators



A shareowner that held 100 Liberty shares from 1998 to 2002 would have received 46,62439 Liberty International shares, 117,278071 Stanbank shares and R10,50 in cash as a result of unbundlings in 1999 and the capital reduction in 2001. Collectively this 'package' has increased in value from R8 100,00 at the end of 1998 to R13 913,83 at the end of 2002, an increase of 72% over the last four years.

Assuming that the shares returned to shareowners were held by them and that the R10,50 capital reduction in 2001 was immediately reinvested in Liberty, then shareowners that held 100 Liberty shares from 1998 to 2002 have earned, collectively from all three sources, dividends amounting to 538,1 cents per share in 1999, 604,1 cents per share in 2000, 710,7 cents per share in 2001 and 774,4 cents per share in 2002. This represents an annually compounded increase in dividends over the last four years of 14%.

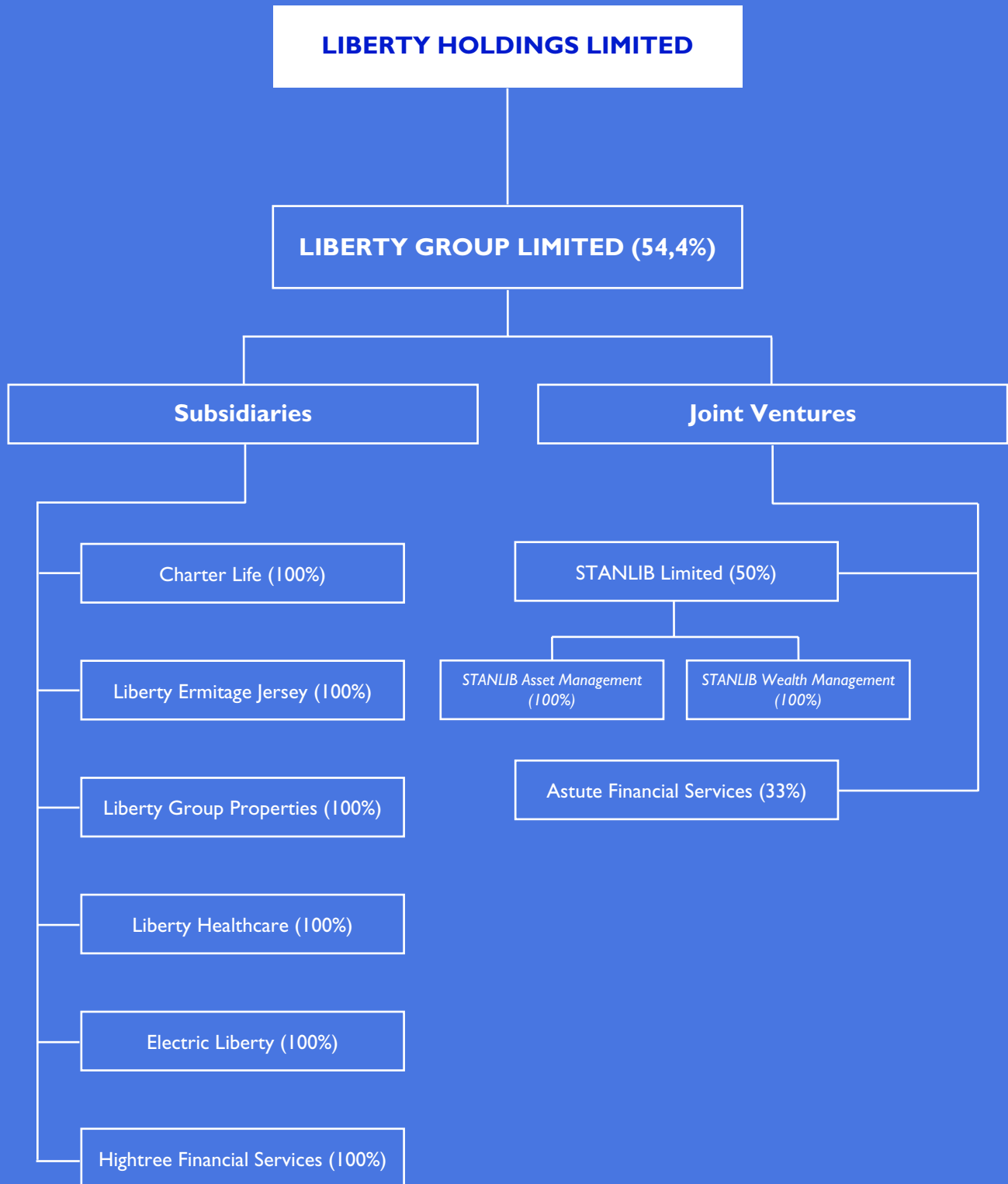
	2002	2001	% Change
Embedded value (Rm)	15 126,6	14 767,4	2,4%
Embedded value per share (R)	55,28	54,21	2,0%
Return on embedded value (%)	7,9	26,4	(18,5%)
Value of new business written (Rm)	604,6	454,8	32,9%
New business margin (%)	20,3	18,5	1,8%
Total return on equity on continuing operations (%)	13,9	40,4	(26,5%)



TAKING CARE OF BUSINESS

Liberty is totally focused on an explicit strategy to **build value** for shareowners, policy-owners, staff, intermediaries and the community in which we live and work.

Every employee is aligned with this strategy, **every action** is judged against this strategy, **every decision** is guided by this strategy.



LIBERTY IS THE FINANCIAL SERVICES GROUP WHICH BEST ANTICIPATES AND FULFILS CLIENTS' NEEDS AND ASPIRATIONS.

PROFILE

Liberty is a progressive financial services group that adopts a sophisticated approach to providing financial solutions. Liberty seeks to be the preferred supplier of, and point of access to, quality, value-added financial and associated services both locally and internationally. Liberty Group boasts high levels of security and good governance supporting its various obligations to its investors. Superior investment performance in relation to the clients' risk tolerance is of paramount importance to the Group and all major asset classes are managed to achieve this result.

Liberty Group's key strength remains its high-quality, highly trained and growing agency, franchise and broker marketing forces. The powerful relationship that the Group continues to build between itself, its intermediaries and its clients secures a close one-to-one relationship that includes face-to-face consultancy and individual response to personal financial needs and aspirations.

The Liberty Group offers a comprehensive and complementary range of non-banking financial services and is highly respected for its contemporary approach to product design. Product development remains a key competence. Sophisticated domestic and offshore investment and risk products which meet ever-changing client needs can be brought from actuarial concept to market offering within days or weeks. The business unit structure within the Liberty Group drives the product design process and resultant service as close as possible to the specific target markets and clients that it aims to serve. The product development committee, chaired by the Group chief executive, supervises overall product strategy and co-ordination across the business units and ensures that all new products meet satisfactory profitability and risk criteria.

The various business units offer a variety of tailored products:

Liberty Personal Benefits (LPB) – offers assurance and investment products for the individual. These include life and disability insurance options, local and offshore investment plans, retirement savings plans, preservation schemes and annuities.

Liberty Corporate Benefits (LCB) – markets a flexible, packaged solution to the retirement funding needs of the staff of corporate bodies. Larger funds may separately purchase elements of the package, such as investment services and the provision of death and disability benefits.

Charter Life – offers retail assurance and investment policies specialising in bancassurance.

Liberty Healthcare – markets healthcare products and services, such as the Liberty Medical Scheme, which offers the ProVia range of benefits, best suited to the corporate market, and the ProCure range of benefits, best suited to the individual market. The unit also offers the Provision Fund for post-retirement healthcare funding, Medical Lifestyle (a successful and popular health insurance product) and the recently launched Medical Lifestyle Plus product. The decision to move the administration of the Liberty Medical Scheme to Medscheme allows Liberty to offer one of the most cost effective and stable medical schemes in a complex healthcare environment.

Liberty Group Properties – leases, manages and administers in excess of a hundred buildings countrywide, which are strategically located in prime retail, office and industrial nodes. This includes flagship shopping centres Sandton City and Eastgate in Gauteng, Greenacres in Port Elizabeth and now Liberty Midlands Mall in Kwazulu-Natal (to be completed in October 2003).

Liberty Ermitage – a Jersey-based fund management company that specialises in alternative investments. Through strong teams in fund research, client service and fund administration, Liberty Ermitage is able to deliver a range of bespoke quality investment products and services to institutions and private clients. There are operations in Bermuda, Jersey, Luxembourg and London with a total of 53 people.

Hightree Financial Services – a well established life and investment distribution company in London. By utilising the existing Hightree management, together with the Liberty Group's proven distribution expertise, Hightree will be used as a platform to grow offshore distribution. The distribution activities of Hightree are complementary to the fund management activities of Liberty Ermitage.

STANLIB LIMITED

STANLIB is a new company but its roots and credentials are long-established. It brings together the asset management and wealth product marketing of two of the strongest financial service brands in South Africa – the Standard Bank and Liberty groups.

STANLIB serves both local and African markets and offers a product mix featuring both local and global brands and is a substantial player in the South African financial services industry. From day one it had a 400 000 strong client-base. Funds under administration top the R48 billion mark while assets under management exceed R128 billion.

STANLIB was officially launched in May 2002. It is owned jointly by Standard Bank and Liberty and comprises two wholly-owned business units:

STANLIB Asset Management – (focused on the management of institutional and retail funds and investment portfolios).

STANLIB Asset Management is founded on the award-winning Liberty Asset Management (Libam) operation. The team composition was then enriched by the addition of hand-picked investment professionals from SCMBAM. The team is a top quartile performer over one, two and three years in both the Retirement Fund and Life Fund categories. In the Unit Trust arena, the team is a multiple winner of the Raging Bull Plexus Award for overall performance across all funds.

STANLIB Asset Management applies the GARP investment style or Growth At a Reasonable Price. It uses research-driven fundamental analysis to establish the intrinsic value of assets. It can then connect its clients to upside potential. Its well proven investment process involves a top-down view of markets and bottom-up research of specific stocks. STANLIB Asset Management integrates top-down and bottom-up perspectives while making strong use of quantitative modelling to determine price drivers, portfolio construction and risk control. The result is consistent performance and superior returns.

STANLIB Wealth Management – (focused on financial product development, product marketing and client support).

STANLIB Wealth Management is the largest provider of wealth management products with the strongest distribution system in South Africa and, through Standard Bank Unit Trusts and Liberty Unit Trusts, markets the largest pool of unit trust assets in South Africa. The division aggregates the strengths of LCI (Liberty Collective Investments), LSI (Liberty Specialised Investments), SBLIS (Standard Bank Linked Investment Services), SBUT (Standard Bank Unit Trusts) and STANLIB Multi-Manager; formerly known as Lodestone Investments. In addition, STANLIB has an interest in Simeka, a black economic empowerment specialist in indexation or passive investment management.

A comprehensive suite of institutional and retail investment products, tailor-made to satisfy the needs of clients, is offered. These products include:

- domestic fund management for institutions and pension and provident funds in seven African markets, including specialist or balanced mandates in equity, bonds and cash;
- international investment for institutions and pension and provident funds in seven African markets, including specialist or balanced mandates through Liberty Ermitage's equity, bonds and cash; and
- unit trust management for both the institutional and retail investor in Swaziland, Lesotho and Namibia.



Derek Cooper – Chairman

**“A YEAR OF TWO PARTS:
GOOD OPERATIONAL
PERFORMANCE
CONTRASTED BY
POOR GLOBAL
MARKETS”**

– Derek Cooper

BUILDING ON OUR PROVEN ENTREPRENEURIAL CULTURE

Performance highlights

In a notably challenging macro-operating environment characterised by historic lows in world equity markets, for the financial year to 31 December 2002, Liberty Group Limited (Liberty) increased its market share, indexed new business sales (by 24%) and operating margins. Despite these gains, Liberty was unable to avoid the impact of falling equity markets and a strengthening Rand which further reduced the Rand equivalent value of the Group's offshore portfolios.

Consequently headline earnings decreased by 29% from R1 499 million (2001) to R1 069 million. Headline earnings per share declined by the same percentage from 551,0 cents to 391,5 cents.

In addition to the market and margin gains mentioned, Liberty

- achieved a gratifying relative investment performance through the new STANLIB operations;
- increased the value of new business written by 33% to R605 million;
- generated positive net cash inflows of R4,5 billion from insurance operations (2001: R2,9 billion); and
- increased bancassurance sales by 91%; evidence of the benefits of the close working relationship between the Standard Bank and Liberty groups.

The economy

Key world markets were notably volatile for most of 2002. In particular, global equity markets were reeling. The South African market was not immune to these global conditions. The All-Share Index of the JSE Securities Exchange South Africa in Johannesburg yielded an overall negative return of 8,3%.

The South African Government continues to manage the country's macro-economic fundamentals well, with inflation targets for 2003 reduced to between 3% and 6% and the balance of payments remaining sound. The Rand has strengthened appreciably in recent months in sharp contrast to its depreciation against major currencies during the last few weeks of 2001.

Finance Minister Trevor Manuel's 2003 Budget speech is a further encouraging signal that the Government is striving to soften the tax burden on taxpayers while also maintaining expenditure in such crucial areas as healthcare, education and water supply. The reduction in national tax will place an estimated R13 billion in the hands of taxpayers, which should help to stimulate overall economic growth. The reduction of tax on retirement funds from 25% to 18% is welcomed and bodes well for the Group's ability to enhance value for shareowners and policy-owners alike.

Capital adequacy and dividend cover

Globally, particularly in Europe, insurance companies are coming under increasing pressure to maintain adequate levels of capital in order to support their life insurance operations.

In South Africa the Liberty Group is well positioned in this regard with its capital three times greater than the statutory requirement. Although this is a comfort in the current environment, the Group remains over-capitalised under normal conditions, consequently the interim dividend cover for 2002 was reduced from two to 1,5 times headline earnings per share and the final dividend of 116 cents results in the overall cover for the year reducing to 1,4. It is comforting to have the Group's capital at its current conservative level in order to support the life insurance operations in the current weak and volatile markets, however, when conditions improve the capital levels will have to be reconsidered.

Legislative and environmental challenges

The greater financial services sector, including the life insurance industry, has witnessed the development and implementation of a significant increase in new legislation, regulation, policies and guidelines in recent years. The Policyholder Protection Rules (PPR) and legislation to control financial advisors and intermediaries are now fully in force, while new legislation to curtail money laundering has been introduced.

Liberty continues to cope well in this environment and we are proactive in the development of systems and processes enabling the Group and its sales force to meet these stringent demands.

Financial Services Charter and BEE

The South African financial services sector is approaching the need to promote and facilitate black economic empowerment (BEE) in a highly co-ordinated and responsible manner. The Liberty Group is working productively in partnership with the Life Offices' Association (LOA) and the Banking Council of South Africa (BCSA) in developing a credible Financial Services Charter. The principal aim of the charter is to ensure that at all levels of economic participation, South Africa's sophisticated financial services sector will mirror the country's rich ethnic and cultural diversity without compromising the dual role it must play as a safe haven for people's savings and a facilitator of economic growth.

The inception of STANLIB

The STANLIB joint venture between the Standard Bank and Liberty groups has shown in its first eight months of commercial operations that this successful alliance has much

value to offer the Group and, more importantly, to our clients.

The merger is progressing well and the year's results confirm the decision to combine these asset and wealth management entities. During 2003 focus will be on systems and product integration which will bring more benefits, particularly to our client base.

At year end, STANLIB Asset Management had assets under management of R128 billion, unchanged from the beginning of the year as net inflows of R2 billion were offset by lower market values. STANLIB Wealth Management sales for the year were R34 billion with an increase in market share for its unit trust business. We remain confident of the longer-term prospects of this joint venture.

Human capital

The ongoing development of highly focused and well-skilled human capital remains a strategic imperative. It is encouraging to be able to report further progress in this field during the year. In a period of significant advances in managing human resources, the Group launched its innovative B³ initiative which is founded on the premise of having "the best people, doing the best things, best!". To remain successful in the highly competitive South African insurance and financial services sector it is critical that Liberty continues to invest in recruiting and developing its people. This strategic commitment is being undertaken with full regard for the spirit and the letter of the Employment and Equity Act of 1998. It is therefore pleasing to report that the Group remains on track to achieve its 2004 employment equity targets.

Responsible corporate citizenship

The Liberty Foundation, established in 1971, continues to focus on sponsoring and championing education, training and related community programmes aimed at helping to develop the country's human potential through personal empowerment and the development of market-oriented skills.

In addition the Foundation retains a complementary focus on the HIV/AIDS pandemic. Through various educational and infrastructural support initiatives it is helping to counter the psychological, social and economic impacts of this scourge.

HIV/AIDS Policy

In our own workplace, the focus on the HIV/AIDS challenge has been further strengthened. A high-level HIV/AIDS review committee which comprises senior executives has been formed. This, along with the implementation of far-reaching new policy guidelines aimed at minimising the impact of the disease on our own people, shows our caring commitment.

Chairman's statement *(continued)*

In the wider South African community, the pandemic has presented several challenges to the insurance and banking industries. As an example, people who are diagnosed as HIV-positive do not qualify for life insurance, nor do they qualify for mortgage bond finance to acquire a home.

In response to the plight of would-be homeowners whose status is HIV-positive, the life insurance and banking industries are currently engaged in comprehensive discussions aimed at enabling these would-be homeowners to qualify for a R100 000 mortgage bond within the normal minimum financial criteria applicable to all bond applications. It is our sincere hope that the industry is successful in this aim which will contribute appreciably to ameliorating the plight of HIV-positive people.

Corporate governance

The Group has responded to the challenge of even more effective corporate governance in South Africa. The comprehensive corporate governance review that starts on page 13 sets out our processes and commitment to this important aspect of commercial life.

We have formed a group risk committee reporting directly to the board of directors under the chairmanship of one of our independent, non-executive directors, Martin Shaw. Separate audit committees have also been established for the Liberty Ermitage and STANLIB groups. These committees report to the Liberty Group Audit and Actuarial Committee.

Prospects

World markets are expected to remain relatively weak for most of 2003. Global economic recovery in time is inevitable.

Liberty is well placed to benefit from the opportunities inherent in the revival of world and domestic markets. Liberty Group has a robust strategic platform off which to pursue growth opportunities, and our people remain focused and motivated. This augurs well for our shareowners and policy-owners, and all other stakeholders in our Group.

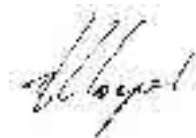
Appreciation

On behalf of the Liberty Group's shareowners and policy-owners, I would like to thank the team of executives and employees for their enthusiasm in the face of challenges in the marketplace and particularly for producing a strong operating performance.

The loss of two of our executive directors, David Nohr to retirement and Mark Bloom to Australia, is sad and their skills will be missed. To them I extend appreciation and thanks for their contribution, over many years, to the Group.

Roy Andersen has successfully led the Group in a difficult year. I would like to thank him for his unwavering commitment to the Group and its many stakeholders. To the Board, for their support and advice, many thanks.

I also thank all the Group's policy-owners, brokers, agents, franchisees and suppliers for their continuing commitment. Our growth and prosperity depend on your sustained support. We look forward to building further good relations with you throughout 2003.



Derek Cooper
Chairman

27 February 2003

INTRODUCTION

The Liberty Group (Liberty Holdings Limited, Liberty Group Limited and its subsidiaries) remains committed to the ongoing review and continuous reassessment of the quality of its corporate governance practices and maintains a strong drive to remain at the cutting-edge of global best practice in business management and corporate governance. The primary motivation is to ensure that the Liberty Group conducts its business activities with integrity in order to be responsive to the needs of all stakeholders, including shareowners, policy-owners, intermediaries and other customers, employees and their community, suppliers, other business partners and government.

The second King Report on Corporate Governance for South Africa, including the code of corporate practices and conduct (King II), came into effect on 1 March 2002. The Liberty Group strongly supports the application of King II and aspires to fulfil the principles contained therein. The Liberty Group is already compliant with most of the recommendations contained in this report and the boards of directors will continue to focus on those areas where governance could be further enhanced, taking cognisance of the recommendations contained in King II.

BOARDS OF DIRECTORS

Composition of the boards of directors

The composition of the boards of directors of both Liberty Group Limited and Liberty Holdings Limited at 31 December 2002 is featured on pages 10 and 76 respectively of the financial statements booklet of the annual report.

The two listed companies have each adopted a unitary board structure, with the Liberty Group Limited and Liberty Holdings Limited boards consisting of 12 and 8 directors respectively. These directors are drawn from diverse backgrounds and bring a wide range of experience, insight and professional skills to the boards.

Role and function of the boards of directors

The boards are responsible for the ultimate control of the businesses of the Liberty Group and for ensuring that appropriate management structures are in place. Some of these structures are described in this corporate governance review. These structures are designed to provide a reasonable level of assurance as to the proper control of the Liberty Group's affairs.

The boards define the Liberty Group's objectives and participate in discussions on, and monitor the progress of, strategic direction and policy, operational performance, business acquisitions and disposals, the approval of major capital

expenditure, consideration of significant financial matters, risk management, compliance, succession planning, the monitoring of executive management's activities and any other matters that have a material impact on the Liberty Group's affairs.

The boards meet quarterly under the chairmanship of Derek Cooper. Additional meetings are arranged as and when necessary. The Liberty Group's overall daily operations are managed and overseen by Roy Andersen, the group chief executive.

Details of attendance of each director at meetings of the boards are set out on pages 17 and 18.

Independence of the boards of directors

By adhering to a number of key principles, the boards' independence from the daily executive management team is ensured:

- the roles of chairman and chief executive are kept separate;
- in Liberty Group Limited, 7 of the 12 directors are non-executive, with 5 of the 7 non-executive directors being independent;
- in Liberty Holdings Limited, 7 of the 8 directors are non-executive, with 5 of the 7 non-executive directors being independent;
- the group audit and actuarial committee consists of independent, non-executive directors and an external consulting actuary, the group risk committee consists of independent non-executive directors and the group remuneration committee consists of independent non-executive directors and the chairman of the boards;
- non-executive directors do not hold service contracts with the Liberty Group and their remuneration is not tied to the companies' financial performance; and
- all directors have access to the advice and services of the company secretary and are entitled, at the expense of the Liberty Group and with the prior agreement of the Group chairman, to seek independent professional advice on the affairs of the Liberty Group.

Going concern

The directors have no reason to believe that the Liberty Group does not have adequate resources to continue in business for the foreseeable future. Accordingly, the financial statements of Liberty Group Limited and Liberty Holdings Limited, set out on pages 12 and 78 respectively of the financial statements booklet of the annual report, have been prepared on the basis of a going concern.

Share dealing by directors and senior personnel

The Liberty Group has implemented a code relating to share dealing by directors and other senior personnel who, by virtue of the key positions they hold, have comprehensive knowledge of the Group's affairs. The code imposes closed periods in order to prohibit dealing in Liberty Group Limited and Liberty Holdings Limited securities before the announcement of mid-year and year-end financial results or in any other period considered price sensitive, having regard to the requirements of the JSE Securities Exchange South Africa in respect of dealings of directors. The company secretary undertakes the administration required to ensure compliance with this code under the direction of the executive director, finance.

The code goes further by also restricting dealings by directors and other senior personnel (to the extent that they are aware) in any security that may be affected by a transaction or proposed transaction between Liberty Group Limited or Liberty Holdings Limited and such company.

Appointment and re-election of directors

All directors of Liberty Holdings Limited are subject to retirement by rotation and re-election by shareowners at least once every three years in accordance with that company's articles of association.

In respect of Liberty Group Limited, only the non-executive directors are subject to retirement by rotation and re-election by shareowners at least once every three years in accordance with that company's articles of association.

The appointment of new directors is approved directly by the appropriate board, subject to shareowner confirmation at the following annual general meeting.

The group chief executive has, as part of his contract of employment, a requirement to give or receive six months' notice to terminate his services and other executive directors are required to give or receive one month's notice to terminate their services.

Induction of new directors

An orientation programme for new directors is in place to ensure they are adequately briefed and have the required knowledge of the company's structure, operations and policies to enable them to fulfil their company duties and responsibilities. The company secretary is responsible for administering this programme.

New directors are also provided with detail of all applicable legislation, a copy of the company's articles and memorandum, copies of recent board minutes and a booklet setting out their duties and responsibilities as directors. The orientation programme includes meeting with the executive directors and

other members of executive management as part of the process of familiarising new directors with the Liberty Group.

Boards of directors of subsidiary and associate companies

Liberty Group Limited's operating subsidiaries and associate companies have their own boards of directors, which are responsible to the Liberty Group Limited board for the proper management of the subsidiary or associate companies. The boards of these meet quarterly under the chairmanship of Roy Andersen.

The role of these boards involves participating in discussions on and maintaining the progress of strategic direction and policy, operational performance, approval of major capital expenditure, consideration of significant financial matters, risk management, compliance, succession planning and any other matters that do or may impact materially on the subsidiary or associate companies' activities.

Company secretarial function

The company secretary is required to provide the directors of the company, collectively and individually, with detailed guidance on their duties, responsibilities and powers and to provide information on legislation relevant to or affecting the company and reporting at any meetings of the shareowners of the company or of the company's directors, any failure to comply with such legislation, including the JSE Securities Exchange South Africa listings requirements.

The company secretary is required to ensure that minutes of all shareowners' meetings, directors' meetings and the meetings of any committees of the directors are properly recorded in accordance with section 242 of the Companies Act. The administration of closed period for dealing in listed securities of the Liberty Group and the induction of new directors are also the responsibility of the company secretary.

BOARD COMMITTEES

The boards have established three committees to assist the directors and the boards in fulfilling their duties and responsibilities. These committees (the group audit and actuarial committee, the group risk committee and the group remuneration committee) operate according to the terms of reference stipulated by the respective boards. Details of these board committees follow.

Group audit and actuarial committee

Members

Messrs W S MacFarlane (chairman), D A Hawton, A Romanis and M J Shaw (all of whom are independent non-executive directors) and S Handler (an actuary and retired executive director of Liberty Group Limited). D D B Band resigned as a

director of Liberty Group Limited and Liberty Holdings Limited and ceased to be a member of the group audit and actuarial committee from 13 March 2002. M J Shaw became an independent non-executive director of Liberty Group Limited and Liberty Holdings Limited on 13 March 2002 and a member of the committee on that date.

Principal objectives

The group audit and actuarial committee's principal objectives are to:

- act as an effective communication channel between the boards on the one hand and the external auditors and the head of internal audit on the other;
- satisfy the boards that adequate internal, financial and operating controls are addressed and monitored by management and that material corporate risks have been identified and are being contained and monitored;
- provide the boards with an assessment of the effectiveness of the external auditors and the internal audit function;
- provide the boards with an assessment of the effectiveness of the compliance function;
- enhance the quality, effectiveness, relevance and communication value of the published financial statements and other public documentation of a financial nature issued by the Liberty Group, with focus being placed on the actuarial assumptions, parameters, valuations and reporting guidelines and practices adopted by the statutory actuary as appropriate to the Liberty Group's life insurance activities;
- provide the boards with an independent point of reference in seeking a resolution of interpretative and controversial issues that impact on the published financial statements and other public announcements issued by the Liberty Group; and
- monitor the application of the policy governing the provision of non-audit services by the Liberty Group's external auditors, set out on pages 19 and 20, and review the extent and nature of all non-audit services provided.

The members of the group audit and actuarial committee review the audit plans, budgets and scope of the external and internal audit functions. The external auditors, the head of internal audit, the statutory actuary, group secretary, head of group risk and the group compliance officer have unrestricted access to the chairman of the group audit and actuarial committee at all times. Liberty Ermitage Jersey Limited and STANLIB Limited have their own audit committees, comprising non-executive directors, some of whom are independent. These audit committees meet quarterly and minutes of these meetings are reviewed at group audit and actuarial committee meetings.

Meetings

Group audit and actuarial committee meetings are held at least four times a year and are attended by the Liberty Group's external auditors, the statutory actuary, the head of internal audit and the appropriate members of the senior executive management team.

Group risk committee

Members

Messrs M J Shaw (chairman), W S MacFarlane and A Romanis (all of whom are independent non-executive directors).

Principal objectives

The group risk committee's principal objectives are to:

- review the Liberty Group's risk philosophy, strategy and policies recommended by executive management;
- review compliance with risk policies and with the overall risk profile of the Liberty Group;
- review and assess the integrity of the process and procedures for identifying, assessing, recording and monitoring of risk;
- review the adequacy and effectiveness of the Liberty Group's risk management function and its implementation by management;
- ensure that material corporate risks have been identified, assessed and receive attention; and
- provide the boards with an assessment of the state of risk management within the Liberty Group.

Meetings

The first meeting of the Group risk committee was held on 21 November 2002. This committee will meet at least twice a year.

Group remuneration committee

Members

Messrs DA Hawton (chairman), M J Shaw from 11 December 2002 (both independent non-executive directors) and DE Cooper (chairman of the boards of directors). DDB Band served on the committee to 13 March 2002.

Principal objectives

The group remuneration committee deals with all aspects of the remuneration of directors and senior executive management, including the allocation of share options. The committee's principal objectives are to:

- ensure that executive directors and members of senior executive management are appropriately and fairly remunerated and incentivised for their contribution to the Liberty Group's financial and operating performance in accordance with the Group's remuneration philosophy;

- ensure that market-competitive reward strategies and programmes are in place to facilitate the recruitment, motivation and retention of high-performance staff at all levels in order to realise corporate objectives and to safeguard shareowner interests;
- determine short- and long-term pay structures for executive directors and members of senior executive management;
- assess and authorise specific reward proposals for executive directors and members of senior executive management, including approving all grants of discretionary share options and bonus payments;
- set remuneration levels for non-executive directors for submission to board and approval by shareowners; and
- ensure compliance with applicable laws and codes.

Meetings

The group remuneration committee meets at least twice a year.

Directors' remuneration

Remuneration philosophy

The Liberty Group's philosophy is to appropriately reward performance that results in the attainment of business strategies and goals. Remuneration packages are structured at levels that will attract, incentivise and retain top-calibre senior executives.

In accordance with this philosophy, the package for executive directors and senior executives includes a fixed salary and benefit component, as well as a variable performance-linked bonus payment and an allocation of share options. The performance-related elements are linked to the achievement of strategic objectives and are intended to incentivise and motivate executives to align their individual goals with organisational goals.

Fixed salary

The fixed element of remuneration is set at relevant market-related levels, taking individual performance and responsibilities into account.

Performance bonuses

The executive directors' performance bonus scheme is based on the achievements of short-term performance targets, which are individually relevant to each executive director. The targets relate to Group financial performance and growth

in embedded value, the achievement of strategic objectives and previously agreed personal targets. Measures and targets are set and reviewed annually by the group remuneration committee to ensure that they are appropriate for judging the performance of both the company and the individual.

Share option schemes

Executive directors also participate in the Liberty Group's share option schemes. This is intended to promote an alignment of interests with those of shareowners and provide a longer-term incentive as part of the remuneration structure.

Pension and medical aid

Pension and medical aid benefits are provided on the same basis as provided to other employees.

Annual performance reviews

Packages, including performance bonuses and share option allocations, are reviewed annually by the remuneration committee with due regard to individual performance and market rates. No executive director is present when his package is discussed.

The chairman appraises the performance of the chief executive at least annually. The appraisal focuses on the implementation of policies and strategies adopted by the board, operational performance and leadership. The appraisal results are reviewed and discussed by the remuneration committee and are used to determine the chief executive remuneration.

Fees for non-executive directors

Non-executive directors receive a fee for their contribution to the boards and board committees of which they are members. Fee structures are recommended to the remuneration committee and the board by the chairman of the remuneration committee, after suitable research on trends in and levels of directors' remuneration.

Disclosure of directors' remuneration

Individual disclosure of the remuneration of executive and non-executive directors of Liberty Group Limited and Liberty Holdings Limited is incorporated on pages 66 and 67 and on pages 104 and 105 respectively of the financial statements booklet of the annual report.

Corporate governance and risk management *(continued)*

Directors' meetings

The number of directors' meetings and number of meetings attended by each of the directors during the year were:

Liberty Group Limited

	Board of directors		Group audit and actuarial committee		Risk committee		Remuneration committee		Executive management committee	
	A	B	A	B	A	B	A	B	A	B
D E Cooper	5	5					4	4		
R C Andersen	5	5							16	16
H I Appelbaum	5	3							16	11
D D B Band	2	2	2	2			2	1		
M A Bloom	5	5							16	15
E Bradley	2	2								
S Handler ⁽¹⁾			5	5						
D A Hawton	5	5	5	5			4	4		
M J Jackson	5	5							16	16
R J Khoza	5	4								
W S MacFarlane	5	5	5	5	1	1				
S J Macozoma	2	1								
J H Maree	5	5								
D S Nohr	5	5							16	14
R A Plumbridge	2	2								
M Rapp	5	2								
A Romanis	5	5	5	5	1	1				
M J Shaw	3	3	3	3	1	1				
C B Strauss	2	2								
E PTheron	2	1								

Column A indicates the number of meetings held during the year while the director was a member of the board or committee.

Column B indicates the number of meetings attended by the director during the year while the director was a member of the board or committee.

(1) Mr S Handler, a retired executive director of Liberty Group Limited, serves on selected board committees.

Corporate governance and risk management *(continued)*

Liberty Holdings Limited	Board of directors		Audit committee	
	A	B	A	B
D E Cooper	2	2		
R C Andersen	2	2		
D D B Band	1	1	2	2
E Bradley	1	1		
S Handler ⁽¹⁾			5	5
D A Hawton	2	2	5	5
W S MacFarlane	2	2	5	5
J H Maree	2	2		
R A Plumbridge	1	1		
M Rapp	2	2		
A Romanis	2	2	5	5
M J Shaw	1	1	3	3
C B Strauss	1	1		

Column A indicates the number of meetings held during the year while the director was a member of the board or committee.

Column B indicates the number of meetings attended by the director during the year while the director was a member of the board or committee.

(1) Mr S Handler, a retired executive director of Liberty Group Limited, serves on selected board committees.

RISK MANAGEMENT

Responsibility for risk management

The boards acknowledge their responsibility for establishing appropriate risk and control policies and ensuring that adequate risk management processes are in place. A Group risk committee, being a board committee of the Liberty Group Limited board, was established during the year under review to assist the board in discharging its risk management obligations. Details of this committee are set out on page 15 of this report.

The Liberty Group's risk management processes are designed to control and monitor risk throughout the Liberty Group. For effectiveness, these processes rely on regular communication, sound judgement and a thorough knowledge of products and markets by the people closest to them. Management and various specialist management committees are tasked with integrating the management of risk into the day-to-day activities of the Group. Details of these management committees are set out on pages 20 and 21 of this report.

As risk management continues to evolve both locally and globally, the Liberty Group's processes and structures are constantly reviewed. A group risk executive has been appointed to co-ordinate the Liberty Group's internal audit, compliance, financial control and risk management activities. Liberty Group maintains a strong relationship with the Standard Bank Group risk department.

Group risk management

A group risk management function has been established, with the aim of developing, communicating and overseeing the processes for identifying, evaluating and managing the significant risks faced by the Liberty Group on an ongoing basis.

A risk management framework and process for the Liberty Group has been developed and the implementation thereof commenced during the year. During the second half of 2002, workshops were held at the executive management committee and at business unit levels in order to identify, rate and rank the significant risks faced by the Liberty Group.

Management is now involved in the review of existing controls and risk management procedures as well as the development of action plans where enhancements can be made to existing procedures.

Internal, financial and operating controls

The boards acknowledge their responsibility for ensuring that the Liberty Group implements and monitors the effectiveness of systems of internal, financial and operating controls. These systems are designed to guard against material misstatement and loss.

The identification of risks and the detailed design, implementation and monitoring of adequate systems of internal, financial and operating controls to manage such risks are delegated to senior executive management by the boards.

The group audit and actuarial committee reviews these matters regularly on behalf of the boards.

Even effective systems of internal, financial and operating controls, no matter how well designed, have inherent limitations, including the possibility of circumventing or overriding such controls. Such systems can therefore not be expected to provide absolute assurance. Effective systems of internal, financial and operating controls, therefore, aim to provide reasonable assurance as to the reliability of financial information and, in particular, of the financial statements.

Moreover, changes in the business and operating environment could have an impact on the effectiveness of such controls which, accordingly, are reviewed and reassessed continuously.

The Liberty Group maintains internal, financial and operating controls that are designed to provide reasonable assurance regarding:

- the safeguarding of assets against unauthorised use or dispossession;
- compliance with applicable laws and regulations; and
- the maintenance of proper accounting records and the adequacy and reliability of financial information.

The external and internal audit functions assist in providing the boards and senior executive management with monitoring mechanisms for identifying risks and assessing controls appropriate to managing such risks.

The boards have not been made aware of any issue that would constitute a material breakdown in the functioning of these controls during the year under review or subsequently.

Business continuity and technology recovery

A comprehensively documented process is in place to allow the critical business processes to continue operations at an alternate business location in the event of a large-scale incident disrupting business activities. Extensive testing of the business recovery programme has commenced and will continue on a cyclical basis.

During 2002, a significant investment was made in the acquisition of a second highly secure operational computer room, as well as contractual access to a syndicated cold site third computer room, to ensure sustainable high availability of all computer services. The second computer is fully operational and the cold site has been tested extensively. Testing will continue on a cyclical basis.

Compliance

The primary role of the group compliance function is to minimise regulatory risk by assisting management in complying with

statutory, regulatory and supervisory requirements. The group compliance function, together with the compliance functions of the business units, facilitates the management of compliance through analysis of statutory/regulatory requirements, training, monitoring and other services. The group compliance function reports to the group risk executive, with regular overseeing activities by the group audit and actuarial committee.

Internal audit

The internal audit functions of the Liberty Group are located in group internal audit services. The Liberty Group's internal auditors perform an independent review and appraisal of the Group's operational activities and operate with the full authority of the group audit and actuarial committee.

Group internal audit services are charged with examining and evaluating the effectiveness of the Liberty Group's operational activities, the attendant business risks and the systems of internal, financial and operating controls, with major weaknesses being brought to the attention of the group audit and actuarial committee, the external auditors and members of senior executive management for their consideration and remedial action. The head of group internal audit services reports to the group risk executive and has direct access to the chairman of the group audit and actuarial committee.

All reports issued by group internal audit services are circulated to the external auditors for their perusal, comment and, where appropriate, action.

External audit

PricewaterhouseCoopers Inc. are the Liberty Group's appointed firm of external auditors. In addition to the audit of Liberty Group's operations worldwide, PricewaterhouseCoopers Inc. also audits the Liberty Group's statement of embedded value.

The boards have approved a policy governing the provision of non-audit services by the Group's external auditors. The policy requires the group audit and actuarial committee's prior approval for any non-audit assignment with a fee in excess of R250 000.

The code of ethics for professional accountants, published by the International Federation of Accountants, is used as a guide by members of the group audit and actuarial committee in determining whether or not any proposed non-audit services would substantively impair the independence of the external auditors.

Corporate governance and risk management *(continued)*

RISK AND GENERAL MANAGEMENT COMMITTEES

The following committees are not board committees of the Liberty Group. These committees are management committees that are responsible for governing key aspects of the business of the Liberty Group.

Executive management committee

Members

Mr R C Andersen (chairman), Mrs L Dewey and Messrs H I Appelbaum, M A Bloom, B T Gamedze, M L Garbutt, L I Izikowitz, M J Jackson, C V Lawrence, I H Maron, J McLean, R L Mitchell, D S Nohr, D L C Pienaar, M Smale and A J Woolfson. Messrs M Alexander, D R de Klerk and A C Lonmon-Davis were appointed to the executive management committee in February 2003.

Primary objectives and meetings

The executive management committee acts as an advisory body to the group chief executive on the operations of the Liberty Group. It meets at least monthly and is responsible for the strategic plan, as approved by the board, its implementation and the monitoring of progress with implementation.

The various management committees detailed below, which, inter alia, are tasked with integrating the management of risk into day-to-day activities, are all represented at the executive management committee.

Group development committee

Chairman

R C Andersen

Primary objectives and meetings

To ensure that the Liberty Group attracts, retains, develops and utilises the required high level human capital to achieve its strategic objectives by:

- developing a succession plan for all key positions;
- reviewing human capital index changes and trends and taking corrective action as and when required;
- assuming a proactive role in the development and monitoring of key individuals' career development; and
- reviewing progress made across the Liberty Group in meeting employment equity targets.

This committee meets three times each year.

Group finance committee

Chairman

M A Bloom (To be succeeded by D R de Klerk with effect from 1st March 2003)

Primary objectives and meetings

The group finance committee meets monthly and is responsible for such operational finance matters as:

- determining and implementing financial policies and procedures;
- planning of budget and reporting cycles;
- improving core accounting processes and internal controls;
- developing and maintaining financial reporting processes; and
- deriving maximum value from existing and new technologies.

Product committee

Chairman

R C Andersen

Primary objectives and meetings

The product committee meets monthly to assess whether all new products conform to the Liberty Group's predetermined requirements and standards such as appropriate margins, investment backing, legal, underwriting, tax considerations and, where appropriate, currency risks, as well as the Liberty Group's administrative capabilities for managing these products.

Investment operations committee

Chairman

M A Bloom

Primary objectives and meetings

The investment operations committee oversees the high-level asset mix parameters for various products and portfolios. It is also tasked with agreeing benchmarks and mandates for performance of each investment portfolio in conjunction with STANLIB Asset Management Limited. Asset/liability matching is a core focus of the committee. This committee meets monthly.

Underwriting committee

Chairman

D S Nohr (To be succeeded by A C Lonmon-Davis with effect from 1st June 2003)

Primary objectives and meetings

The committee meets quarterly to review underwriting standards and claims experience. It also monitors reinsurance retention limits and stop loss limits.

Technology strategy committee

Chairman

L I Izikowitz

Primary objectives and meetings

The principal objective of the technology strategy committee is to ensure that due diligence is applied when selecting and adopting new information and communication technologies. This committee defines which technologies are core for the Liberty Group and ensures that business units only adopt sustainable technologies that are compatible with their business needs. This committee also oversees the enhancement of information security and meets monthly.

Information technology & operations (IT&O) board

Chairman

L I Izikowitz

Primary objectives and meetings

The IT&O board ensures that due diligence is applied with respect to purchasing of information technology (IT) products and services and that the IT infrastructure is maintained cost efficiently. Meetings are held quarterly.

SUSTAINABILITY

The boards review the ethical, transformation, social and its safety, health and environmental policies on an ongoing basis. With regard to the pursuit of best practices and the Global Reporting Initiative's (GRI) draft Sustainability Reporting Guidelines™, management will be considering how systems and processes can be developed to enhance its disclosures on business sustainability and sustainable development and to therefore provide increasingly comprehensive reporting on sustainability issues in the future.

These recently revised GRI guidelines are being adopted increasingly by larger corporations in North America, Europe, South Africa and elsewhere and embrace a plethora of social, economic and environmental performance measurements and criteria, including such specific issues as occupational health and

safety, environmental custodianship, human rights and community relations.

Communications with stakeholders

The Liberty Group remains committed to a policy of effective communication and engagement with its stakeholders, the investment community and regulators on issues of mutual interest. It subscribes to a policy of open, frank and timeous communication with its stakeholders on both financial and non-financial matters.

The main stakeholders fall into the following broad categories:

- shareowners;
- policy-owners, intermediaries and other customers;
- employees and their community;
- suppliers and other business partners; and
- government.

Communication of the stewardship of financial and other resources, and the strategic direction of the Liberty Group, has been prompt and open. This commitment was again rewarded during the year under review when the Liberty Group received the Best Chairman's Statement award for the 2001 financial statements from the Investment Analysts Society of Southern Africa (IAS). The investor relations department focuses on promptly communicating the Group's strategy and financial performance to the investment community, the media and other stakeholders. Annual presentations to the IAS, road shows to international investors and one-on-one meetings are examples of the way this communication takes place. The Liberty Group's corporate website (www.liberty.co.za) has an investor relations menu item which contains a considerable amount of information including recent corporate announcements, financial results presentations, the latest annual report, media releases and contact details.

In addition to contact with their Liberty financial advisor, a highly sophisticated call centre facilitates a further effective communication channel for policy-owners to contact the Liberty Group. Liberty Group Limited also corresponds with all policy-owners at least on an annual basis at which stage personal and contact details are confirmed and the status of each policy-owners' portfolio is provided.

The Liberty Group produces an annual employee report in which the operational highlights, corporate aspirations and main business activities of the preceding financial year are reviewed. A comprehensive intranet site, to which unrestricted access is available to every employee, has been established to ensure prompt communication and to provide employees with

information on topics of interest. These topics include information on job vacancies, as well as available opportunities for employee training and development. In addition, Roy Andersen, the group chief executive, and other executives meet regularly with groups of employees at lunches. At these functions, employees are encouraged to engage them in key business and workplace issues of mutual interest. A facility exists through the intranet for staff to pose questions to executive management on topics of their choice.

The Liberty Group produces a monthly magazine, Liberty News, for all its employees, as a means of fostering group identity and keeping all staff well-informed on events and developments within the Group.

Quarterly executive management forums are held at which the chief executive addresses the Liberty Group's senior and middle management on progress with strategic initiatives as well as key business and industry developments.

The Liberty Group has also established a consultative process with employees in order to ameliorate the impact of technological and other organisational changes in the working environment and, as a result, has enjoyed continuing good labour relations.

The Liberty Group seeks to promote a healthy, secure and participative social and working environment with its employees, business associates and society at large. The duty of being a responsible, caring and exemplary corporate citizen is considered to be an obligation.

Liberty Group senior management meet with senior management of the Financial Services Board (FSB) on a bi-annual basis, to discuss matters of mutual interest. The FSB are also receptive to ad hoc communication or meetings with senior management as and when required. This frank and open communication is facilitating a closer working relationship with the Group's regulators. Members of Liberty's senior management have further contact with the FSB senior management through the various industry forums on which they serve. The Liberty Group legal advisor has been appointed by the Minister of Finance to the advisory committee on financial services in terms of the Financial Advisory and Intermediaries Services Act, 2002.

The Group has open and robust lines of communication with the Ombudsman for Long Term Insurance. Liberty Group employees interact with the Ombudsman's employees as frequently as necessary to resolve matters raised through the Ombudsman to the mutual benefit of all parties involved. Two Liberty Group employees serve on the Ombudsman's committee which deals with the financing and administration of the Ombudsman's office.

Code of ethics

The Liberty Group subscribes to the highest levels of professionalism and integrity in conducting its business and dealings with stakeholders. All Liberty Group employees and representatives are expected to act in a manner that inspires trust and confidence from the general public.

The Liberty Group has formalised a code of ethics, which prescribes the Liberty Group's approach to business ethics and its obligations to clients, shareowners, employees, representatives, suppliers, the general public and the authorities. Responsibility for compliance with the code has been delegated to the business unit heads.

This code of ethics, which has been, and will continue to be, the subject of a dialogue with the Liberty Group's employees and representatives, specifies the following basic approach to business ethics:

- commercial businesses should operate and compete in accordance with the principles of free enterprise;
- free enterprise is, nevertheless, constrained by the observance of law and of generally accepted principles governing ethical behaviour in business;
- ethical behaviour is founded on the concept of utmost good faith and characterised by integrity and reliability;
- ethical business activities will benefit all participants through a fair exchange of value or satisfaction of need;
- the creation and enjoyment of profit is both a legitimate component of this exchange and an incentive to continue in business;
- other than the observance of legal and ethical business practices, we expect no favours from our competitors – nor should they expect any from us;
- we expect equivalent standards of ethical behaviour from those individuals and companies with whom we conduct business;
- it is incumbent upon the Liberty Group to strive for excellence in its ethical standards, as in any other aspect of its activities; and
- we will at all times adhere to the principle of sound corporate governance and "zero tolerance" of fraud or corruption in our business.

The induction training of new employees includes a module dealing with the code of ethics, compliance therewith and the Liberty Group's stance on fraud. In addition, employees at and above assistant manager level have received training in the prevention of fraud.

As the Liberty Group places a high value on integrity, honesty and trust, the Group will continue during 2003 to enhance and promote existing programmes supporting these values. The principle of “zero tolerance” of fraud and corruption will also continue to be applied.

Existing policies on the reporting of breaches of the code of ethics ensure confidentiality and protection to persons making reports, as outlined by the Protected Disclosure Act, 2000. Internal disciplinary procedures are fully compliant with the Labour Relations Act, 1995. To encourage employees to be more vigilant and proactive in the combating of fraud, a reward system for 'whistleblowing' is operational.

To reinforce existing initiatives, an informational video dealing with the code of ethics will be launched to all employees and a new training course entitled “Honesty in the Workplace” will be implemented during 2003.

Safety, health and environmental issues

HIV/AIDS

The Liberty Group has developed a comprehensive strategy for managing HIV/AIDS in the workplace, the implementation of which began in 2001. The objective is to minimise the total impact of the HIV/AIDS pandemic on the Liberty Group to a level that will ensure the long-term sustainability of business operations, while providing the maximum support possible to HIV positive employees. An executive management sub-committee has been formed to monitor and review the strategy and implementation plans. An HIV/AIDS co-ordinator has been appointed specifically to manage the implementation of the plan.

This strategic plan is based on four initiatives - economic containment; epidemic containment; support for people living with AIDS; and ongoing research and quarterly review of the plan. Communication forms an integral part of the process. Key aspects of the plan are:

- conducting a voluntary prevalence survey, which was undertaken in 2002;
- maintaining an intensive, ongoing awareness and education programme, which includes the widespread distribution of condoms;
- providing voluntary counselling and testing;
- implementing an AIDS management programme through the Liberty staff medical scheme; and
- maintaining effective management guidelines for managing HIV-positive employees in the workplace.

Executives of the Liberty Group have recognised the need to address the pandemic in the community at large, not just inside the Liberty Group. The Liberty Group partners with Hope Worldwide, an international non-governmental organisation,

in training peer educators to educate people on the causes and prevention of HIV/AIDS and how to manage HIV-positive family members at home. The peer educators operate within the Liberty Group and extend their activities into their communities.

Health and safety

The Liberty Group has an established health and safety committee, which monitors and manages occupational health and safety in the workplace. Committee members are duly appointed as required by the Occupational Health and Safety Act (OHASA). This committee performs its mandated functions, ensuring that the provisions of the OHASA are complied with. The committee meets monthly and a safety reporting system is in operation.

Crisis management plans for the Liberty Group are in place, with staff having received appropriate training. As part of their crisis management training, occupational health and safety representatives throughout the Group have been trained in techniques such as crowd control, fire fighting and first aid. An extensive health and safety campaign was held during October 2002 to promote the awareness of workplace safety.

The Liberty Group also operates a wellness centre where staff can consult medical doctors, industrial nursing professionals, physiotherapists, psychologists and optometrists on the company's premises.

Social and transformation issues

Black economic empowerment

The Liberty Group is fully committed to the principles underlying black economic empowerment (BEE), which are being implemented as part of a holistic approach to managing and promoting economic and societal transformation.

BEE is seen as an issue that affects the whole business including empowering partnerships, infrastructure development funding, human capital management, procurement practice and corporate social investment. The Liberty Group manages all of these different initiatives as part of a cohesive framework that has at its core the aim of ensuring sustainable growth into the future.

• Empowering partnerships

The Liberty Group considers it important to engage with appropriate business development partners who can add value in order to benefit from new business opportunities. The policy is not to restrict the level at which these relationships occur - whether at Liberty Group, subsidiary, associate or divisional level.

What is not negotiable, however, is that each partnership should have a sound business rationale, with all parties contributing significantly to the creation of economic value and each participant having a clear understanding of its role in the venture.

Corporate governance and risk management *(continued)*

• *Infrastructure Development Funding*

The Liberty Group is committed to increasing involvement in investments that contribute towards an increase in the number of black-owned businesses, job creation and the development of core infrastructure.

These investments are made and will continue to be made as part of a sound and prudent investment strategy that recognises the nature of the policy-owner liabilities and the risk-return profile of the various asset classes and individual investments made to ensure that those liabilities will be met.

Employment equity

The Liberty Group's employment equity vision is to transform the organisation in an equitable manner thereby contributing to continued operational soundness and profitability. The Group employment equity strategy is to ensure that affirmative action

is a mechanism for achieving a transformed organisational culture and work environment.

The Liberty Group's employment equity plans were lodged with the Department of Labour in 1999. An employment equity charter was drafted for the Liberty Group's employment equity forum and the forum was established in March 1999. The charter presents and guides the basis upon which employment equity will be embraced by the Liberty Group in terms of South Africa's Employment Equity Act of 1998.

The Liberty employment equity forum, which consists of elected staff representatives, assists the executive management committee by providing constructive ideas and recommendations on how to address the challenges involved in implementing the employment equity plan and addressing human diversity in the workplace.

Staff composition

Occupational levels	AIC*	Male			AIC*	Female			Total	%
		%	White	%		%	White	%		
Top management	1 ⁽ⁱ⁾		13	0,4					14	0,4
Senior management	4	0,1	14	0,4	1		1		20	0,5
Specialists and mid-management	12	0,3	103	2,8	4	0,1	29	0,8	148	4,0
Skilled workers and junior management	549	14,7	667	17,9	601	16,1	796	21,3	2 613	70,0
Semi-skilled workers	391	10,5	29	0,8	304	8,2	158	4,2	882	23,7
Unskilled workers	29	0,8	1		22	0,6			52	1,4
Total staff composition at 31 December 2002	986	26,4	827	22,3	932	25,0	984	26,3	3 729	100,0

*AIC = African, Indian and Coloured.

(i) In January 2002 Themba Gamedze was appointed to the executive management committee.

51% of the Group's total staff complement at 31 December 2002 consisted of African, Indian and Coloured staff compared to 46% at 31 December 1999. African, Indian and Coloured employees comprise 31% of management level employees at 31 December 2002, compared with 24% at the end of 1999, reflecting the progress made in moving towards the Group's employment equity targets. Good progress towards meeting the race and gender targets for 2004 is being made and the key challenge is the employment of adequate numbers of Africans at management levels. Efforts are being made to ensure that the best possible retention strategy is in place.

During the year, the forum was active in establishing and training staff employment equity implementation teams in all business units in order to facilitate effective consultation and communication. Employment equity targets have been devolved to the lowest levels of management to ensure direct accountability of all managers for the achievement of targets. The Group's recruitment policy has been revised to support the achievement of these targets. Significant efforts are being made to improve, in particular, black representation at senior management and executive levels.

The Liberty Group has appointed a dedicated manager whose main role is the co-ordination and execution of the work needed to embrace the spirit and opportunities at hand to maximise the implementation of employment equity. This function resides within group human resources and works closely with the forum.

Procurement practices

The Liberty Group has formalised its procurement procedures, with a sourcing and supplier management department managing key supplier relationships, service, policies and procedures. Value-added purchasing teams have been able to integrate supplier capabilities into the Liberty Group's processes and thereby achieve a competitive advantage through cost reduction, technology development, service, quality and cycle-time improvements.

In addition, the Liberty Group has adopted a policy to guide the sourcing of goods and services from suppliers owned and operated primarily by people from previously disadvantaged groups - that is black people (Africans, Indians and Coloureds), women of all races and people with disabilities. Liberty's policy, in particular, is to increase the level of purchases made from black suppliers. The ultimate aim is to support the establishment of viable and growing new black-owned businesses, as well as to encourage existing businesses to play their part in entrenching the economic transformation process. Liberty Group Limited is a member of the Corporate SMME Development Forum (CSDF), a private sector membership-based company that aims to support and enhance the efforts of its members in the area of black economic empowerment and affirmative procurement in respect of small, medium and micro enterprises.

The Liberty Group has made a positive contribution in terms of affirmative procurement. Close to R102 million (10%) of the Group's commodity expenditure during 2002 was devoted to BEE companies. By 2005, the Group intends to allocate at least 15% of its commodity procurement budget to BEE suppliers.

Corporate social responsibility

The Liberty Group has been actively concerned with various aspects of social development for more than 30 years and,

through the activities of the Liberty Foundation and other Group community-focused initiatives, has gained an enviable reputation for sustained and innovative involvement in the upliftment of the historically disadvantaged members of South African society.

In particular, the Liberty Group's corporate social responsibility and investment activities are concentrated on educational activities to ensure that South Africa evolves towards realising much of its untapped human capital potential. A key focus is in secondary education and bursaries for tertiary training both of which are viewed as being indispensable in support of national human resource development plans and ensure the existence of a well-educated pool of future employees from which Liberty will be able to draw.

More detailed comment on the activities of the Liberty Foundation, along with some of the other more notable social investments and socio-economic enhancement projects undertaken by the Liberty Group, are summarised in the social investment review on pages 57 to 60.

Human capital management

In a competitive industry where competition is increasingly being driven by the value of intellectual capital, technological advantage and the ability to draw on the creative power of human diversity, the Liberty Group views its people as its most valuable resource. In addition the Liberty Group ensures that its human capital management strategy is fully aligned with its B³ vision (the best people, doing the best things, best!), so that the Group's employee initiatives go beyond the ability to "do the job" by engendering a genuinely "can do" attitude.

The Liberty Group provides all employees with technical, behavioural and leadership development opportunities not only based on the needs of their current jobs, but also in preparation for future career opportunities. The significant focus on expanding the base of highly skilled and motivated employees is one of the cornerstones of the Liberty Group's reputation in the labour market and among its employees. To this end, the Liberty Group utilises its own internationally-styled and benchmarked human capital index. The index's primary focus is to ensure that the Liberty Group maintains and refines the principles, processes and programmes needed to appreciate its human capital and grow the value of this resource from one quarter to the next.

All Group employees have, as part of the performance management system, a development plan that captures development planning and results. These plans are also used to compile annual workplace skills plans and reports. The Liberty Group has successfully implemented a computerised e-Talent system in order to monitor the individual development needs

Corporate governance and risk management *(continued)*

and retention factors of the top 300 managers and executives in the Liberty Group. Information from this database is shared regularly with managing directors of the business units and is also reviewed at group development committee meetings.

Opportunities for further tertiary education are also made available to all employees and during 2002, no less than 929 employees used the Liberty Group's conditional bursary scheme. The scheme involves the granting of study and book loans to employees. These study loans need not be repaid provided employees successfully complete their studies and remain in the employ of the Group for a minimum of one year from the date of their last examination.

From a statutory compliance perspective, the Liberty Group also works closely with the INSETA (Insurance Sector Education and Training Authority) and has submitted a workplace skills

plan as well as all other reports required by the Department of Labour to ensure that the Liberty Group qualifies for all the available grants in order to recover skills levies paid. The Liberty Group also registered the first learnership in the industry as part of an ongoing skills development and employment equity drive in Liberty Corporate Benefits.

The main area, in which BEE impacts the Liberty Group's human capital development strategy, is in ensuring that the Group identifies artificial barriers to the development of the full potential of staff who come with the legacy of having been historically disadvantaged in terms of education, training and business experience. The Liberty Group is absolutely convinced about the empowering nature of the skills development initiatives and mentoring plans it has established and developed. The Liberty Group will continue to invest in all its people to the extent necessary to maximise their value-adding potential.

THE LIBERTY GROUP CONTINUES TO DELIVER ON STRATEGIC OBJECTIVES

Launch and grow STANLIB Limited

- Merger implemented from a human resource and corporate culture perspective
- Merger costs on budget – systems integration costs will continue into 2003
- Accelerated benefits from Stanbank, Liberty and own distribution channels
- Net inflow of assets under management to STANLIBAM of R2 billion offset by weakening markets resulted in assets under management being retained at R128 billion
- STANLIB Wealth Management gross sales R34 billion

Develop Standard Bank Financial Consultants and bancassurance sales

- Bancassurance sales up 91% to R3 164 million
- Five year CAGR of 36%
- Number of SBFC consultants increase by 20% to 699

Reposition Charter in mass and niche markets

- Total new business premiums up 38% to R1 873 million
- Indexed new business premiums up 33% to R633 million
- 229 active consumer consultants

Focus on profitability in Liberty Corporate Benefits

- Net cash inflow from operations of R791 million up 241%
- Life Offices Association market share of underwritten business premiums increased to 9,1% over five years (6,8% in 1998)
- Embedded value of in-force book up 14% to R766 million

Leverage customer value management initiative for new business and retention

- Personal Benefits indexed new business up 26% to R2 371 million
- Personal Benefits value of new business up 37% to R509 million
- Individual surrenders and maturities at 8% of in-force book (13% in 1998)
- Consistent market share gains

Grow Liberty Ermitage sales

- Assets under management grow to US\$2 266 million since acquisition in 2000 despite poor markets (US\$2 036 million in 2000)
- Headline earnings up 142% to R28 million notwithstanding weak markets

Focus on productivity of agency and franchise

- Average number of new cases per agency consultant down 5% as younger, new agents were recruited in 2002.
- Average number of new cases per franchise consultant up 33%



Roy Andersen – Chief executive officer

“ALTHOUGH WE HAVE HAD AN **EXCELLENT OPERATIONAL YEAR**, WE ARE NOT COMPLACENT. THE **GOALS AND TARGETS FOR 2003 ARE DEMANDING**. MANAGEMENT WILL RISE TO THE CHALLENGE.”

– Roy Andersen

INTRODUCTION

OVERVIEW

2002 was characterised by strong operational performance amidst poor investment markets and demanding economic conditions. All key indicators other than investment markets produced good results. Indexed new business sales increased by 23,5%, expenses were well controlled, net cash flows from insurance operations continued to increase and new business margins improved. Headline earnings were negatively impacted by the poor global investment market conditions and the strengthening Rand.

KEY INDICATORS

- **Investment returns**
Despite STANLIB Asset Management outperforming its investment return benchmarks, the weighted average investment return on the equity, managed and foreign assets portfolios was -9,5%. This compares with a positive return of 25,3% for 2001 and the actuarial expectation of 14,5% for 2002. Shareowners earn 10% of capital bonuses declared to policy-owners on certain classes of business and the negative return for 2002 has impacted adversely on the life fund operating surplus.

The property portfolio benefited from increased tourism, major sporting events and summits, providing a before-tax return of 15,5%.
- **Sales growth**
Recurring new business premiums increased by 27,7%, while indexed new business rose by 23,5%. This is against 16,5% and 11,3% respectively for the previous financial year. New bancassurance premiums increased by 90,5% to R3 164 million.
- **Expense management**
The average renewal cost per policy and the acquisition cost per policy decreased by 1,6% and 1,3% respectively, substantially outperforming the actuarial expense inflation assumptions. Management action taken early in 2002 to control costs was successful.
- **Customer retention**
Individual policy surrenders and maturities increased by only 7,2% and Group terminations and withdrawals decreased by 13,6%. The number of individual policies in force increased by 50 595 (2001: 1 697).

KEY PERFORMANCE MEASURES

From an investor perspective, there are a number of key measures on which Liberty's performance can be judged:

- The value of new business increased by 32,9% to R604,6 million. The new business margin improved to 20,3% (from 18,5%), largely owing to the introduction of the new Excelsior range of products, a change in mix towards higher levels of retirement annuity business and the lower than anticipated management expenses.
- Net cash inflows from insurance operations increased by 53,6% to R4 501 million reflecting the underlying operational strength and success of the customer value management (CVM) programme.
- Headline earnings on continuing operations decreased by 28,7% to R1 069 million or 391,5 cents per share, due to the lower investment returns and the impact of a much higher secondary taxation on companies (STC) charge for 2002.
- Embedded value at 31 December 2002 amounted to R55,28 per share, 2% up on the R54,21 for 2001. The effect of the poor investment markets has been offset by the strong operational performance.
- Capital adequacy cover has become of increasing importance. Liberty's capital adequacy multiple, which is higher than the industry average, was 3,0 at the end of December 2002. This compares with 3,5 at 31 December 2001 and 3,4 at 30 June 2002 and provides a comfortable level of cover given the current uncertainty in investment markets, as well as allowing for a positive return on equity.
- The share price was relatively static, ending the year at R54,65 per share, yet out-performing the JSE ALSI and the Financial and Life Assurances Indices by 10,3%, 10,6% and 8,5% respectively. Seen against the backdrop of stagnant global equity markets, this has been a satisfactory outcome.
- The recommended final dividend payout is 116 cents per share, thereby maintaining the year-on-year dividend flat at 278 cents, representing a dividend yield of 5,1%. The revised dividend policy implemented in June 2002 has resulted in the dividend cover for the year declining to 1,4 times from 2 times in 2001.

A new policy was adopted to distribute excess capital to shareowners while maintaining a healthy capital adequacy cover required to sustain the business in the volatile investment market conditions.

Further details on the financial performance of the Group and its subsidiaries are contained in the finance director's review that starts on page 2 of the financial statements booklet of the annual report.

Growing market share and new business

Business growth

- Liberty Personal Benefits' results once again exceeded growth and profitability targets. Single premium new business rose by 21,2% while recurring premium new business rose by 27,9%.
- Liberty Corporate Benefits' new recurring premiums increased by 23,2%, while new single premiums decreased by 3,4% thereby resulting in an overall 2,4% increase in new business premiums (16,2% increase on an indexed basis). More than a thousand new schemes were acquired by the Group during the year.
- Charter Life's new recurring premiums increased by 30,7% to R495 million, while new single premiums rose by 40,4% to R1 377 million, as Charter Life strengthened its alliance with Standard Bank Financial Consultants (SBFC).

The bancassurance strategy has gained further momentum. This channel produced 28% of total new sales for 2002, with the sale of simple products (mainly credit life and funeral policies) rising by 30,5% and the sale of complex (high advice) products by 98,1%. The bancassurance contract with Stanbank provides for a 50/50 split of profits on complex products while Stanbank receives 90% of profits on simple products.

Productivity in the franchise distribution channel improved significantly with new business sales increasing by 23,1%. Improving the productivity of agency and franchise was a goal set in the 2001 annual report. Agency and franchise channels account for 35% of sales. Sales through the broker channel (including SBFC) increased by 47,9% and contributed 65% of total sales for 2002. The strong support of "non-group brokers" (i.e. non-SBFC brokers) is also most pleasing.

Product innovation

Product innovation remains a cornerstone of the business.

Liberty Personal Benefits launched its Excelsior range of products in June 2002, following extensive market research that highlighted the need for a tax-efficient investment vehicle that is flexible, cost-effective, transparent and able to meet longer-term wealth creation needs.

Two product ranges target two different market segments: Excelsior 200 series is aimed at the middle-income market with a recurring premium offering, while Excelsior 300 series is for the high income and high net worth markets with both a recurring and a single premium offering. The product is able to assist both the client and intermediary – with the assistance of the Liberty financial needs analysis and risk profiling tools - in the portfolio selection process with risk profiled single and multi-manager funds, sector specialist funds as well as offshore hedge and equity funds and local unit trusts. Excelsior has been extremely well received by clients and intermediaries alike and is to be a core offering in the future.

The new medical insurance product (Medical Lifestyle Plus) is considered to be the leading product of its kind. The product was launched in January 2003 and early indications are positive.

Market share

Liberty's market share continues to increase in a steady market, with the Group's share of new recurring individual business (retirement annuity and ordinary business) growing from 17,2% at 30 June 2001 to 17,4% at 30 June 2002. Liberty's share of individual single business increased from 14,8% at 30 June 2001 to 17,3% at 30 June 2002.

CORPORATE ACTIVITY

Corporate activity has focused on the strategic positioning of Liberty in the international market to best serve a South African client base, while at the same time consolidating our local portfolio in order to focus on our strengths.

The acquisition of Liberty Ermitage in 2000 is a prime example. This acquisition provides a cost effective conduit to international markets for clients. Liberty Ermitage's assets under management increased from US\$2 152 million at 31 December 2001 to US\$2 266 million at 31 December 2002, with good sales volumes having offset declines in market value. Headline earnings increased by 142% to R27,9 million, a pleasing performance especially in the light of world market conditions.

Similarly, the acquisition of Hightree Financial Services, a small boutique brokerage company based in London, was another strategic offshore investment. The acquisition not only enhances the pursuit of the Group's internationalisation strategy, but also provides an avenue for the distribution of Liberty Ermitage products into the United Kingdom retail market.

On the corporate restructuring front, the decision was taken in September 2002 to close the Freestyle customer loyalty programme. The Freestyle programme was launched in

February 2002. Sales and fee income were however not at the levels expected. The loss attributable to Freestyle and the remaining operations of MyLife amounted to R39,7 million in 2002 compared with a loss of R50,8 million in respect of MyLife for 2001. No further operational expenditure on these discontinued operations will be incurred.

On 23 April 2002, Liberty announced that administration of the two established Liberty Healthcare medical schemes, ProCure and ProVia, was to be transferred to Medscheme. The Group has thereby exited the highly competitive, low-margin business of being a medical scheme administrator; but has retained the client base and reinsurance arrangements. Liberty Healthcare has been restructured and repositioned comprehensively during 2002 to become a specialist health insurance company marketing and supporting the Medical Lifestyle Plus product.

The Liberty Midlands Mall development, in Chase Valley, Pietermaritzburg, is a project that will boost the Group's existing portfolio of properties. The project has progressed well and is on schedule and within budget. Most of the groundwork has been completed, while the first structural steel elements are being erected. The anticipated trading date of the end of September 2003 is currently within reach. Property backed products are extremely attractive in the current market environment with sales reaching R1 058 million in 2002.

STANLIB STARTS TO FULFIL ITS PROMISE

Without doubt, one of the most important strategic events of Liberty's recent history is the creation of STANLIB, the merger of Standard Bank Group Limited (Stanbank) and Liberty's asset and wealth management operations.

Highlights of the year's activities include:

- The development of the strategy for the merged entity;
- Human resource and corporate culture integration;
- Reviewing the product range and commencing with rationalisation;
- IT upgrades and a start on systems integration;
- The consolidation of five different locations into one at Melrose Arch; and
- Financial integration and systems implementations.

STANLIB is benefiting from the additional distribution channels of Stanbank and Liberty. STANLIB Asset Management experienced a net inflow in assets under management of R2 billion and maintained its total assets under management at R128 billion despite weakening markets. STANLIB Wealth Management sales for the year reached R34 billion.

Now that the merger has been fully implemented from a human resource and corporate culture integration perspective, the necessary economies of scale have to be realised into 2003 and 2004 as IT platforms, processes and products are rationalised further.

POSITIONING THE COMPANY

The Group touches the lives of many hundreds of thousands of people – from policy-owners, shareowners, intermediaries and employees, to the beneficiaries of our extensive social investment programme.

Making the best of our human capital

As part of the human capital strategy - and in line with its world-class high-tech approach - the e-HR strategy that facilitates career development, performance management and personal development for all employees was launched in 2002. Employees can now access career models and different job profiles via the intranet and proactively initiate their own career development. A valuable component of this is the commitment to the retention and development of top intellectual capital through the e-Talent system for senior management and executives. This system keeps track of qualifications, experience and career interest, performance and potential, and is used to tailor development and retention strategies.

Added to this is the B³ programme, with the vision of "The best people, doing the best things, best!", developed in consultation with management and employees. B³ implementation at business unit, team and individual levels has commenced and will become an important part of the transformational processes, leading to improved levels of productivity and effectiveness.

Employment equity

An integral part of this process is the transformation of the organisational culture, structures, systems and processes so that the 6 000 minds that make up Liberty's "best people" are representative of designated Group members. Management has set and strives to achieve targets in terms of the employment of historically disadvantaged individuals, and reports on these plans, targets and achievements to the Department of Labour in line with the Employment Equity Act. Progress is being made and the issue remains on the strategic agenda.

Previously disadvantaged individuals make up 51% of the overall staff complement. Blacks (comprising Africans, Coloureds and Indians) make up 31% of management. At 31 December 1999 (the year in which targets were set) previously disadvantaged individuals made up 46% of the overall staff complement while blacks, as defined above, comprised 24% of management.

Highlights of the year include the piloting of a transformation workshop, the implementation of a succession planning and mentorship programme and the revision of the Group's recruitment policy to support the employment equity targets set for 2004.

Managing HIV/AIDS in the workplace

Liberty's HIV/AIDS strategy has two primary goals: First, to limit the level of exposure of the company as a result of the virus to ensure the long-term sustainability of the company, and second, to provide significant support to those employees who are HIV positive.

Good progress was made during the year with the ongoing implementation of this strategy. Visible support of the executive team, combined with the appointment of a full-time AIDS co-ordinator, supported the roll-out of this initiative.

A large number (2 486) of employees (excluding agents) participated in a group-wide, voluntary, anonymous testing initiative to assess the HIV prevalence level in the Group. The results, which were extrapolated to include everyone that could have been tested, indicated a prevalence level of approximately 3% - about 100 people – which is lower than anticipated. The HIV positive samples were spread fairly evenly across all age groups, and there was very little difference between the results for males and females. Consequently the projected financial risk to the company is currently assessed as relatively low.

Important initiatives during the year include the implementation of the assistance for AIDS management scheme, through Libcare – Liberty's medical scheme for employees, as well as a number of AIDS awareness initiatives by peer educators. Many of these peer educators extend their activities into their communities outside of the Group.

Guidelines for managing HIV positive employees in the workplace have been developed and have been introduced to managers and employees through workshops.

The impact of AIDS on the life insurance operations of the Group has also been assessed and current experience reveals no major increase in AIDS deaths or HIV prevalence at new business testing stage. Reserves have been set aside in accordance with guidance notes issued by the Actuarial Society of South Africa.

Black Economic Empowerment (BEE)

BEE is a critical positioning opportunity for Liberty. The Group is fully committed to the principles underlying BEE and aims to establish and nurture appropriate empowerment partnerships that will enable it to gain access to public sector, parastatal and union business and emerging market individual business. At the same time, the aim is to contribute to the successful development of viable, sustainable empowerment enterprises.

Themba Gamedze and I are actively involved in the development of the Financial Services Charter, which is considered to be a necessary and constructive approach to the transformation of South Africa's economy.

Further important developments are anticipated in respect of BEE in the months to come.

BUILDING VALUE

Looking ahead, our strategy remains firmly in place. First, we will continue to focus on increasing our profitability. Second, we will aim for growth in increasing the value of our company now and in the future. Third, we will continue to position ourselves both internally and in the broader South African structural and socio-political framework in the best interest of our employees, partners and shareowners.

Profitability

Maintaining and indeed increasing profitability remains an objective in the year ahead through new product development and customer value management among others.

Product development and high service levels

In terms of individual business, we endeavour to be at the forefront of product development in South Africa across risk, retirement and investment product lines. A new line of products is currently under construction. At the same time we will ensure that service levels are such that the intermediary wants to conduct business with Liberty.

Customer value management

In short, the CVM strategy comprises a programme to improve the interaction and strengthen the relationships between the intermediary and the customer as well as between Liberty and the customer. A key aspect of this strategy is the incentive and reward-based intervention designed to prevent lapses and surrenders in order to maximise the overall retention of the business, which is so necessary in a highly competitive market, where acquisition costs are high. The CVM project has produced significant improvements in client intelligence (including their propensity to buy products), client and intermediary communication, new product design and improved service delivery. Continued roll-out during 2003 should see further benefits.

GROWTH

Growth during the year ahead is anticipated to come from four areas, namely bancassurance, consultancy, international and renewed focus on the corporate benefits business.

Bancassurance

The new bancassurance contract between Liberty and Standard Bank was followed by an agreement entitling Liberty to manage SBFC, the bank's network of consultants and intermediaries. In essence, the contract enables Liberty to tap into the larger, lower end of the market through Standard Bank's existing distribution network, while maintaining the integrity of its upper-end brand.

In 2002 alone, Liberty's share of this business increased from 65% to 84%. Further productivity gains are planned for 2003.

Consultancy

The consultancy division remains the cornerstone of Liberty's growth experience and targets. Despite the overall bearish conditions in domestic and world markets, particularly equities, Liberty Consultancy is targeting further growth in new business. Following the excellent progress in the broker, franchise and bancassurance distribution channels, the rejuvenation of the agency force will be addressed in 2003.

International growth

Strategic but contained international growth remains on the agenda, with the aim of servicing the Group's clients, but without exposing the clients or the shareowners to exorbitant offshore costs. The aim remains to build and acquire sufficient offshore distribution to provide a range of cost-effective international risk and investment products in hard currencies to South African clients. In essence this would secure a stream of offshore domiciled hard currency earnings for shareowners.

Renewed focus on corporate benefits business

Currently the Corporate Benefits target market comprises small companies in a sector which Liberty dominates. During the year ahead, management aims to implement an aggressive campaign into the medium-fund market, to increase Liberty's access to payroll deductions and to penetrate the LSM 5 and 6 market segments.

DEPLOYMENT OF CAPITAL

In line with its strategy to deploy capital in areas aligned with its core business and to access growth markets, Liberty disposed of certain non-core shareowner assets during the year. Investments sold included 2,5 million Gold Fields shares, 2,2 million SABMiller shares and various low yield properties.

This strategy balances the need to maintain capital and reserves at levels that provide shareowners with attractive returns and the need to have a buffer against unpredictable market and economic conditions. No further capital reduction is envisaged in the near future, but the continuation of dividend declarations at current levels of cover (if appropriate) will ensure that the Group maintains its level of capital at optimum levels given the current economic climate. Our capital adequacy cover of 3,0 at 31 December is also considered appropriate in this climate, and will remain virtually unchanged at 2,9 on the new proposed regulatory basis.

RISK MANAGEMENT

Globally, risk management remains a corporate imperative. A risk management framework was devised during the course of the year and a risk management department established to oversee the process. A series of workshops were held to identify, rate and rank the risks of the Group; action plans are being developed to manage and limit the consequences. One focus, in particular, during 2003 will be to implement an integrated risk management approach for all business units and subsidiaries.

In 2002, Liberty experienced increased levels of administration and compliance activity resulting from new regulations, including Policyholder Protection Rules and the Financial Advisory and Intermediary Services Act.

New systems, processes and procedures have been, and will continue to be, developed to cope with the increased demand for consumer protection.

CONCLUSION ON 2002

2002 was an excellent year from an operational point of view. The vast majority of the goals set at the beginning of the year were achieved; all the major business units performed well and loss making entities were closed. I am grateful for an excellent team effort.

PROSPECTS

The Liberty Group has a cohesive management team, clearly-defined strategies, a strong reputation and access to a formidable sales force. Demanding goals and targets have been set for 2003 which are expected to achieve significant further operational improvements and market share gains.

Future earnings will continue to be dictated by world investment markets which should show an improvement in the medium term.

2003 GOALS

1. Focus on individual business
 - New product range under construction
 - Service levels – from good to great
 - Improved retention and profitability of existing customer base (CVM)
2. Further improve agency and franchise productivity
3. Grow employee benefits
4. Further develop bancassurance business
5. Grow offshore distribution
6. Contribute to development of viable, sustainable empowerment enterprises
7. Realise merger synergies in STANLIB
8. Implement B³ human capital vision “The Best people doing the Best things Best!”

Executive management committee



1. **Roy Andersen (54) CA(SA), CPA (Texas)**
Group Chief Executive, Liberty Group and Liberty Holdings
6 years' service



2. **Hylton Appelbaum (49) BA, LLB**
Executive Director, Liberty Group
16 years' service



3. **Mark Bloom (44) BCom, BAcc, CA(SA)**
Executive Director, Finance, Liberty Group
17 years' service



4. **Deon de Klerk (33) CA(SA)**
Chief Financial Officer, Liberty Group
6 years' service



5. **Leanne Dewey (35) BA (Hons), LLB**
Divisional Director, Legal Services
14 years' service



6. **Themba Gamedze (44) BA (Hons), MSc, FIA, FASSA**
Business Development Executive, Liberty Group
1 year's service



7. **Mike Garbutt (56)**
Managing Director, Liberty Consultancy
30 years' service



8. **Lee Izikowitz (44)**
Chief Information Officer, Liberty Group
14 years' service



9. **Craig Lawrence (43) BCom (Industrial Psychology)**
Human Resources Executive, Liberty Group
3 years' service



10. **Andrew Lonmon-Davis (37)**
BSc(Hons) Actuarial Science
Divisional Director, Group Actuarial
 16 years' service



11. **Ian Maron (37) BSc(Hons), Actuarial Science, FFA, ASA**
Managing Director, Liberty Corporate Benefits
 16 years' service



12. **Mike Jackson (53) BA(Hons), MA(Psychology)**
Executive Director, Insurance Operations, Liberty Group
 29 years' service



13. **Jim McLean (54)**
Managing Director, Liberty Group Properties
 21 years' service



14. **Ron Mitchell (56) ACIB**
Chief Executive Officer, Liberty Ermitage
 7 years' service



15. **David Nohr (58) BSc (Maths & Stats), FIA, ASA**
Executive Director, Actuarial and Statutory Actuary, Liberty Group
 38 years' service



16. **Dan Pienaar (51)**
Managing Director, Liberty Healthcare
 31 years' service

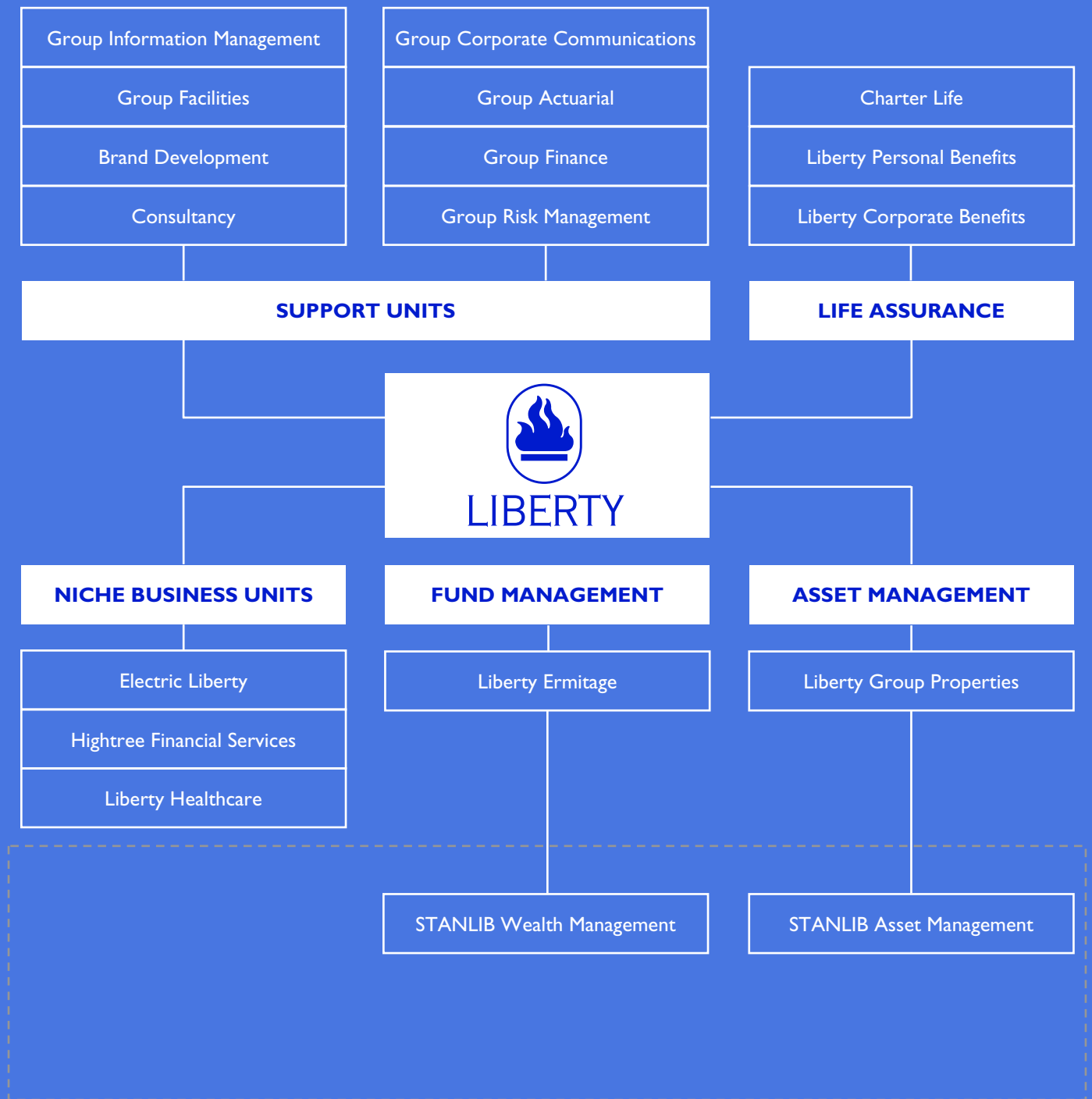


17. **Martin Smale (41) BSc, MBA (GM/Finance/Marketing)**
Managing Director, Liberty Personal Benefits
 3 years' service



18. **Alan Woolfson (49)**
Managing Director, Charter Life
 31 years' service

Business structure at 31 December 2002



A POWERFUL CORE OF WORLDCLASS INTELLECTUAL CAPITAL

Corporate

Group chief executive: **Roy Andersen**
Executive director, insurance operations: **Mike Jackson**
Group business development executive: **Themba Gamedze**
Personal assistant to the group chief executive: **Jacob Jaure**

Group actuarial

Executive director, actuarial: **David Nohr**
Divisional directors: **Paul Lancaster, Andrew Lonmon-Davis and Misheck Mbewe**

Brand development

Brand development executive: **Dan Pienaar**

Group human resources

Human resources executive: **Craig Lawrence**
Divisional directors: **Khosi Matshitse, Alistair Souter and Dawid de Vlamingh**

Group finance

Executive director, finance: **Mark Bloom**
Chief financial officer: **Deon de Klerk**
Divisional director: **Jaco Venter**
Group secretary: **John Worwood**

Group information management

Chief information officer: **Lee Izikowitz**
Divisional directors: **Ian Cleminson, Hamid Essop, Derek Gowans and Peter Thompson**

Group legal services

Divisional director: **Leanne Dewey**

Group risk management

Group risk management executive: **Mark Alexander**
Divisional directors: **Peter Collison**

Medical suites

Chief medical officer: **Dr Denys Schorn**

Performance of business units and subsidiaries



Managing Director:

Martin Smale

Divisional Directors:

Allan Bulmer, David Gnodde and Stuart Wenman



LIBERTY PERSONAL BENEFITS

Profile

Liberty Personal Benefits markets and administers a diverse range of investment, risk and retirement financial products and services to individuals and their families under the Liberty life insurance license. Its clients are primarily in the middle-income, high-income and high-net-worth income segments spread across a broad geographic and demographic base in South Africa.

Business review

Liberty Personal Benefits had another excellent year by again exceeding growth and profit targets. Single-premium new business grew by 21% from R4 207 million to R5 098 million. Recurring-premium new business increased by 28% from R1 455 million to R1 861 million. The year was dominated by exchange rate and market volatility with an increasing swing towards more conservative, risk-averse investment portfolios. Despite intensified competition around risk products following several competitor launches, Liberty Personal Benefits was able to meet its targeted expectations.

The business' all-round good performance is testimony to the robustness and focus of the business, together with the effective implementation of strategic and operational priorities over the last few years. Key to this strategy are the ongoing imperatives of improved customer service levels, the delivery of innovative products in line with customer needs, maintaining a strong employee drive and commitment to excellence, and being able to exploit the Group's distribution channel and asset management strengths.

Despite poor industry and sector growth, as well as difficult macro-economic factors such as reduced consumer confidence, higher inflation and interest rates, and the generally lacklustre equity market performance, Liberty Personal Benefits improved most operating measures successfully, grew its business and gained market share. Integral to this success has been the further development and implementation of the Liberty customer value

Performance of business units and subsidiaries *(continued)*

management (CVM) programme and excellent channel performance, which has contributed to an improving lapse trend. This trend is particularly pleasing considering the year's socio-economic environment. This, together with strong new business growth, has contributed to a pleasing overall increase of Liberty Personal Benefits' in-force book by about 3,5%.

These results were achieved within an environment of effective cost containment with the Blueprint processing technology providing significant leverage under circumstances of increasing new business volumes.

Liberty Personal Benefits' product development strategy was progressed effectively with the successful launch of several new and enhanced products designed to meet the evolving needs of its growing market. The business launched the Liberty Excelsior Investments Series designed to meet the long-term wealth-creation needs of different market segments. Market response has been above expectation. The product is considered to be one of South Africa's leading investment propositions. Liberty Excelsior Investments consists of the Excelsior 200 series designed for individuals who are saving for a particular financial goal, such as a child's education, and the Excelsior 300 series aimed at people investing to create long-term wealth requiring greater flexibility and choice in the way they invest.

Liberty Excelsior Investments has been developed around a core set of investment principles to allow investors to tailor their investment to their own particular needs within a single

investment vehicle with the flexibility and transparency to adapt to the changing investor circumstances. A key component is the risk-profiled funds that enable investors to invest in professionally managed funds in accordance with their individual risk profile and choice of asset manager vehicle. Both South African and international risk-profiled funds are available, together with several third-party investment manager choices. Through Liberty's Blueprint Risk Analyser, investors can determine their risk profile and invest in appropriately managed funds. These factors will become more relevant once the new Financial Advisory and Intermediary Services (FAIS) Act is introduced in 2003.

The business landscape is expected to remain difficult during 2003 with continuing market volatility and uncertainty for clients. Although local fundamentals remain sound, international geopolitical and economic factors are likely to predominate and South Africa will unlikely remain unaffected. Increasing competition around key market segments remains an ongoing threat and legislative pressures are likely to intensify with the introduction of money laundering legislation.

Liberty Personal Benefits is considered to be well positioned to weather such factors and take advantage where opportune. It intends to build on the strategic platforms created and to leverage the opportunities inherent in its product development, administration and servicing capabilities with a particular focus on meeting or exceeding client expectations. The good relative performance of STANLIB, coupled with the world-class professionalism and dynamism of the Liberty distribution system and product attributes, is expected to underpin a cautiously optimistic outlook for the year ahead.

Business unit's performance

Rm	December 2002	December 2001	% Change
Indexed new business	2 371	1 876	26%
New recurring premiums	1 861	1 455	28%
New single premiums (excluding STANLIB Wealth Management on-balance sheet new business)	5 098	4 207	21%
New single premiums (including STANLIB Wealth Management on-balance sheet new business)	5 958	5 434	10%
Net cashflows	2 708	2 093	29%
Claims and benefits	(8 370)	(7 652)	9%
Value of new business	509	372	37%

Performance of business units and subsidiaries *(continued)*



Managing Director:

Ian Maron

Divisional Directors:

Annette Dye, Tony Kamionsky, Patrick Mayne, Alan McCulloch, Richard van Dijk, Joe van Niekerk and Dave Watts



LIBERTY CORPORATE BENEFITS

Profile

Liberty Corporate Benefits' target market comprises mostly smaller and medium-sized companies, each typically with a workforce of between 10 and 300 people, but also extending to include much larger companies. Clients are spread across diverse geographic regions and economic sectors.

The key products marketed and administered by Liberty Corporate Benefits include retirement funds and risk benefits (other than healthcare) for employees and various investment funds for companies. The business unit's off-the-shelf offerings are highly competitive in the current South African corporate market in respect of features, pricing and service levels. The business unit enables Liberty Group to expand its penetration of established and emergent companies by growing its retirement fund membership base.

Business review

In a challenging year of mixed fortunes, compounded by the impact of the disappointing domestic and international stock markets, Liberty Corporate Benefits continued to focus on new opportunities to strengthen its competitive edge and to create value for both clients and the Group. Its most significant achievements are the conspicuously improved levels of service and the markedly enhanced efficiency of all administrative systems.

All key internal business controls, most especially those applied to financial management, administration, client service and sales quality, were strengthened during the year and are showing pleasing results. Most administrative processes and client enquiries are now being undertaken and completed within three days, which is considered to be a demonstration of market leadership in South Africa.

The improvements achieved are the culmination of a lengthy focus on infrastructural development, and sustainable (rather than quick-fix) solutions have been introduced.

Performance of business units and subsidiaries *(continued)*

While Liberty Corporate Benefits remains a comparatively small industry player in the retirement funding sector, it continues to achieve growth rates above the peer group. The inherent profitability of the business sold during 2002 was similar to that achieved in 2001. A different business mix sold during the year, however, led to a reduction in the value of new business written, which was R42 million compared with the R47 million value of new business secured during 2001. Looking into the future, however, the profitability of this business unit is expected to increase as the stable infrastructure allows further efficiency gains to be achieved.

New recurring premiums increased by 23% from R346 million to R426 million. New single premiums decreased by 3% from R1 225 million to R1 183 million. During the year, more than 1 000 new schemes were introduced to Liberty Group, thereby maintaining the upward trend of recent years. Net positive cash flows rose from R232 million to R791 million, indicating strong organic premium growth and a reduction in scheme claims.

Management expenses, however, did exceed budget by 2%. The overrun was all in areas of validated project expenditure. This, together with flat investment values, prevented the business unit's embedded value from growing more strongly than 13%.

Four promising new product variations were launched in July 2002:

- Corporate Advanced Bonus, a fully vested smooth bonus portfolio;
- Corporate Growth Pension – Guaranteed Option, a bulk pension product with increases guaranteed to keep pace of the consumer price index (CPI);
- Corporate Growth Pension – Multimanager Option, a multi-manager portfolio underlying the Growth Pension policy; and
- Corporate Asset Recovery Option, a product feature whereby members of funds invested in smooth bonus portfolios with other insurers do not bear the immediate cost of termination if their fund is moved to Liberty.

The business unit's overall marketing strategy, culture and sales material have been improved to ensure greater alignment with the Liberty brand and marketing culture.

The marketing, sales and servicing resources of Liberty Corporate Benefits are structured to maximise support to its supporting intermediaries. These include the direct intermediaries of the Liberty Consultancy division and hundreds of independent brokers. Standard Bank Financial Consultants (SBFC) began to support the business unit during October 2002. This additional distribution arm augurs well for Liberty Corporate Benefits' longer-term goals of sustaining growth, increasing market share and enhancing value for all stakeholders.

Business unit's performance

Rm	December 2002	December 2001	% Change
Indexed new business	544	468	16%
New single premiums	1 183	1 225	(3%)
New recurring premiums	426	346	23%
Net cashflows	791	232	241%
Claims and benefits	(2 248)	(2 454)	(8%)
Value of new business	42	47	(11%)



Managing Director:

Alan Woolfson

Executive Director:

Jonny Bagg

Divisional Directors:

John Hyde, Sid Kaplan, Nobert Mureriwa and Frank Schutte

CHARTER LIFE



Profile

Charter Life Insurance Company Limited (Charter Life) markets a successful range of highly competitive life insurance and investment products through three main distribution channels: a strong bancassurance partnership with Standard Bank; Liberty Agency and Franchise; and an expanding network of contracted independent brokers. As from January 2003, the company will be increasing its focus on developing simple and competitively priced insurance and related investment products for the dedicated and growing Standard Bank Financial Consultants (SBFC) Consumer Consultancy force throughout South Africa, which is focused primarily on the lower- and middle-income sectors of the consumer market.

A national network of more than 800 independent brokers, including some of the country's largest players, continues to market and support Charter Life's products. The broker network is complemented by the support, since July 1999, of Liberty Group's extensive agency and franchise operations in South Africa.

Business review

In keeping with its trendsetting tradition of growth and stability, Charter Life remains a thriving specialist life assurance business and a robust contributor to Group income. The company posted an overall 7% increase in headline earnings, a pleasing result given the extremely poor investment markets in 2002.

Total new business increased by 38% to R1,9 billion and new recurring premiums increased by 31% from R379 million to R495 million. New single premiums increased by 40% from R981 million to R1 377 million. Credit Life and Group Life business rose by 19% from R235 million to R281 million. Claims and benefits increased 19% from R1 085 million to R1 296 million. As with Liberty Group as a whole, Charter Life was able to sustain an excellent performance in all areas where it was able to control and influence key business factors and

Performance of business units and subsidiaries *(continued)*

trends. The overall value of Charter Life's total assets under management exceeds R7,7 billion.

In a year of all-round excellent growth, consolidation and optimisation, Charter Life further strengthened its burgeoning alliance with the Consumer Consultancy force SBFC. The SBFC Consumer Consultancy's staff complement based at retail outlets of Standard Bank throughout South Africa increased from 200 to 220 consultants during 2002.

The company remains keenly focused on containing all operational expenses, while also maximising its service to consultants, brokers and policy-owners. While the volume of new business has grown by an average of 46% a year over the last 10 years, Charter Life has not increased its staff complement of about 300 during this period. During 2002, the increase in operational expenses was contained to about 10%, which is in line with inflation.

The successful launch of the new Charter World-Class Service initiative during the year was well received by employees, policy-owners, brokers and consultants, all of whom have seen markedly improved service levels. This initiative augurs well for

achieving business expansion and high-level service in the future. To this end, Charter Life will increase its staff complement during 2003 to ensure that high levels of customer support and service can be sustained.

To complement its new world-class service drive, Charter Life is also successfully integrating the new, Group-wide B³ (the best people, doing the best things, best!) human capital optimisation strategy. The company also remains a pacesetter in promoting employment equity. People from designated groups (Africans, Coloureds, Indians, women and people with disabilities) already hold more than 58% of the company's jobs. Through the newly developed Charter Life Leadership Development Programme, the company is optimistic that its more senior positions will in future be held by a far higher percentage of people from designated groups.

The company has a powerful entrepreneurial drive, an innovative product development culture, a solid investment record, excellent distribution channels, a loyal clientele and a highly motivated and skilled staff complement supported by a strong technological foundation. These seven key factors, in conjunction with the proven and ongoing Liberty-Standard Bank bancassurance alliance, augur well for the continuing prosperity and stability of Charter Life.

Business unit's performance

Rm or %	December 2002	December 2001	% Change
Indexed new business	633	477	33%
New single premiums	1 377	981	40%
New recurring premiums	495	379	31%
New bancassurance premiums (including Liberty)	3 164	1 661	91%
Net cashflows	1 002	605	66%
Claims and benefits	(1 296)	(1 085)	19%
Value of new business	67	48	40%
Headline earnings	131	122	7%
Headline ROE	22%	23%	(1%)

Performance of business units and subsidiaries *(continued)*



Chief Executive:

Ron Mitchell

Group Executive Members:

Ian Cadby, Johnathan Giles, Duncan Hickman, Mark Hucker, Peter Metcalf and Andrew Whelan



Profile

Acquired by Liberty Group with effect from 1 October 2000, Liberty Ermitage is one of Europe's most promising offshore fund management and hedge fund specialist operations. The group employs 53 people and is managed from Jersey. It has operations in London, Luxembourg and Bermuda.

The group has total funds under management of US\$2,27 billion and is capitalised at US\$50,5 million. Liberty Ermitage is able to offer a comprehensive range of investment solutions, including Standard & Poor's AAAM-rated money funds, as well as a range of hedge funds and conventional long-only funds. It maintains a proud tradition of delivering superior and innovative investment products to both institutional and private clients.

The Liberty Ermitage products are distributed through various reputable international channels, including those of the Standard Bank and Liberty Group in Africa, as well as Standard Bank International operations. The group also maintains strategic distribution alliances across Europe, including Scandinavia and Finland. Alliance partners include AXA, Finaltis (25% owned by the Robeco Group) and Inter Valor, the largest independent distributor to financial institutions in Scandinavia and Finland.

Business review

In its second full financial year as a subsidiary company of the Liberty Group, Liberty Ermitage again contributed pleasingly to Group headline earnings. Its contribution increased by 142% from R12 million to R28 million.

The year was characterised by turbulent and treacherous markets worldwide, exacerbated by the unravelling of spectacular corporate accounting fraud and irregularities. Major markets collapsed by a further 20% to 30%, representing the third consecutive down year, which has only occurred three times before in American stock market history

Performance of business units and subsidiaries *(continued)*

(1901-1903; 1929-1931; and 1939-1941). This disconcerting trend occurred despite 10 successive interest rate cuts in the United States by the Federal Reserve Bank, which took American interest rates to their lowest levels in 41 years.

Against this bleak backdrop, Liberty Ermitage produced encouraging results by increasing:

- operating profit by 104% to R20 million (£1,3 million or 64%);
- profit before tax and goodwill by 58% to R33 million (£2,12 million or 26%); and
- net income by 43% to R24 million (£1,53 million or 15%).

The group's total assets under management increased by 5% from US\$2,2 billion to US\$2,27 billion. While money funds decreased by 5% to US\$667 million, hedge funds increased by 6% to US\$807 million and traditional funds increased by a commendable 16% to US\$792 million. In comparison, virtually all of the international fund management groups reported reduced profits, with the reduced value of their assets under management reflecting the huge declines in global stock markets.

The group's senior management team was strengthened considerably throughout the year and, overall, it is well positioned to weather the expected continuation of turbulent market conditions ahead. Liberty Ermitage has successfully allocated assets to those products that have proven their ability to preserve and enhance investor wealth. Moving into 2003, the group has added three new products to its strong and well balanced portfolio.

These innovative products will provide further flexibility in countering negative market conditions.

The new funds are:

- Liberty Ermitage Global Strategy Fund, a multi-strategy fund of funds investing across both directional and spread-based hedge fund strategies. This fund was launched in January 2003 with assets of US\$14 million and is expected to reach the US\$100 million mark before mid-2003;
- Strategic Partners Fund, a fund of funds investing mainly in European-based, early-stage hedge fund managers, is aimed at major international financial institutions who are taking their first steps in hedge fund investing. The fund is due to be seeded with proprietary capital of US\$50 million and launched before April 2003. This promising international fund, among other highlights, offers international investors enhanced transparency, multifaceted returns and guaranteed capacity; and
- The Liberty Ermitage Pooled Gold Account, launched in September 2002 and to be converted to the Liberty Ermitage Resources fund by April 2003, which enables the group's high-net-worth client base to hedge future declines in both global stock markets and the American Dollar.

By positioning the group in this innovative way, and by retaining its proven strengths in world-class fund research, client service and fund management, Liberty Ermitage remains confident of increasing profitability and assets under management during 2003, despite the strong likelihood of adverse global market conditions prevailing for the next few years.

Business unit's performance

Rm or %	December 2002	December 2001	% Change
Net inflow of funds	1 196	1 022	17%
Assets under management	19 499	26 115	(25%)
Headline earnings	28	12	142%
Headline ROE	7%	3%	4%

Performance of business units and subsidiaries *(continued)*



Managing Director:

Mike Garbutt

Divisional Directors:

Johan Coetzer, Andrew Jacobs, Otto Pretorius,
Francis Raffner and James Skuse



Profile

Liberty Consultancy co-ordinates and undertakes the sales and product delivery functions of the Group's strategic business units. Consultancy maintains three effective primary operating channels:

- the agency division, which employs full-time Liberty sales people and their immediate support operations;
- the franchise division, which exclusively markets, sells, delivers and supports Liberty products and services; and
- the broker division, comprising an expanding network of independent intermediaries who are not tied exclusively to Liberty products and services.

In terms of the revised agreement for the bancassurance alliance between Standard Bank Group and Liberty Group, the distribution arm of Standard Bank Financial Consultants (SBFC) now also reports directly to the Liberty Consultancy division at an operational level, making this Consultancy's fourth distribution channel.

Liberty Consultancy is now directly responsible for developing and managing almost 2 600 sales personnel, in addition to promoting and servicing the Liberty product range to almost 5 000 independent intermediaries.

Business review

Building on its solid growth platform of recent years, Liberty Consultancy enjoyed another year of exceptional growth and success. Overall sales, based on indexed new premium business written, grew by 20%, improving on the growth rate achieved in 2001 of 18%.

This is an excellent performance on the back of an average annual 20% growth achieved during 2001 and 2000, especially in the light of prevailing macroeconomic factors, most notably the poor relative performance of world markets, the comparatively high domestic interest rates, the relatively high food-price inflation and the drop in consumer confidence.

Performance of business units and subsidiaries *(continued)*

Such factors are compounded by the highly competitive nature of the South African insurance market and the lack of real growth in the number of high-income individuals and families in South Africa.

Despite the formidable competition and market factors, Liberty Consultancy surged ahead by increasing market share for the third consecutive year. The increase in market share is largely attributable to:

- the high efficiency and reliability of the distribution channels;
- the rapid and flexible responsiveness to changing market needs and regulatory requirements; and
- the highly skilled, motivated and professional sales force.

In the financial services industry, especially the life insurance sector, Liberty has become a highly regarded, preferred provider of products and services. The 32,2% growth in indexed new business premium income from independent intermediaries supporting Liberty in 2002 is ample testimony of this status.

The internal agency division performed satisfactorily and shows immense potential for harnessing new growth opportunities in the next few years. The resurgence of agency business is as a result of the Liberty Agency Management Academy established in 2000. The academy is reaching maturity and starting to provide additional management and sales personnel.

The full benefits of this strategy will start to be derived in 2003. The franchise division, restructured during 2002, performed well by increasing new-premium business by 23,1%. Now that restructuring is completed, and efficiency and franchisee support have been enhanced, Liberty Consultancy expects to see the franchise division operating even more effectively and generating an even higher-quality inflow of new business during 2003.

The new Financial Advisory and Intermediary Services (FAIS) Act, expected to become effective during the latter part of 2003, requires financial services advisors and intermediaries to be licensed and to comply with stricter new regulations. The Group generally welcomes new legislation and regulations aimed at protecting consumers, advisors and the financial services industry and is well positioned in this regard.

Despite the overall bearish conditions in domestic and world markets, most especially equities, Liberty Consultancy is targeting further new-business growth for 2003 on the basis of having a sound business strategy, a highly skilled sales force, a combination of excellent distribution channels and excellent products that appeal to consumers. These competitive advantages are backed by the Group's competent resources in developing and managing world-class practices in brand management, human capital, information technology, financial services and administrative systems. Growth, however, is expected to be achieved at a lower rate than those achieved during 2001 and 2002.

Business unit's performance

Rm, number or %	December 2002	December 2001	% Change
Indexed new business	2 812	2 346	20%
New single premiums	6 594	5 904	12%
New recurring premiums	2 153	1 756	23%
Total agents - number	851	738	15%
Franchisees including their staff - number	734	1 197	(39%)
Broker consultants - number	263	256	3%

Performance of business units and subsidiaries *(continued)*



Managing Director:

Jim McLean

Executive Directors:

Eric Bernstein, Rojer Corlett, John Dacombe and Melville Urdang



LIBERTY GROUP PROPERTIES

Profile

Liberty Properties develops and manages the Group's successful property portfolio, including investment joint ventures with other financial institutions. The company markets and administers a portfolio valued at almost R13 billion, of which R9,6 billion is owned by Liberty Group. The value of the Group's managed property portfolio appreciated by 5,5% in 2002. The company continues to focus on servicing value-added niche markets in select geographic regions.

Ten key properties form almost 72% of the portfolio. Major properties under management include the Eastgate, Sandton City, Sandton Square and Alberton City shopping centres in greater Johannesburg and Greenacres in Port Elizabeth. Trading under major hotel brands, notably Intercontinental, Holiday Inn and Cullinan, managed by Southern Sun, Liberty Properties has more than 3 000 hotel rooms in its portfolio, the largest number of hotel rooms held by a South African property company.

Business review

Liberty Properties' pleasing contributions to Group income and profit for 2002 again underscores the strategic soundness of maintaining a high-quality property portfolio exemplified by world-class maintenance and tenant support. Contribution to headline earnings increased by 28% to R24 million. Over the longer term, the South African property market has outperformed the domestic equities market. Liberty Properties also performed well above the local property industry median, once again reinforcing the robustness of its vision and management style.

The company's excellent financial results were better than budgeted. This is notable given the recent oversupply of commercial and retail properties and the prevalence of comparatively high interest rates. The total square metres leased increased during 2002. Portfolio vacancies declined, which indicates a return towards desired occupancy levels.

Performance of business units and subsidiaries *(continued)*

Increases in management expenses were kept below both budget and inflation.

The impact of high interest rates was especially felt in the retail property sector, which was constrained by the softer growth in consumer spending throughout most of 2002. Both footfalls and the average per-capita expenditure at major shopping centres were generally higher than those recorded for 2001, albeit at a lower-than-usual growth rate. Liberty Properties continues to invest in its core retail facilities in order to sustain high standards of maintenance, cleanliness, aesthetics, security and an all-round excellent shopping experience.

The company is forecasting a similar financial performance in the retail sector for 2003. The R280 million investment into a new regional shopping centre at Pietermaritzburg, The Liberty Midlands Mall, will unleash an important new income stream once this centre opens for business in September 2003. The anchor tenants will include Game, Pick 'n Pay and Woolworths.

Work is about to commence on the R65 million refurbishment of the Eastgate Shopping Centre in greater Johannesburg. This project is scheduled to be completed before April 2004. Early in 2003, Liberty Properties acquired the remaining 16,6% minority shareholding in the Norwood Hypermarket complex in Johannesburg.

On the commercial front, Liberty Properties encountered challenges primarily because of the continuing oversupply of high-quality office space in major urban areas. Most of the

current oversupply of commercial space, however, is expected to be occupied by the end of 2003. This positive trend should help to stabilise this sector and yield more attractive returns on investments.

In an ongoing effort to rationalise, and therefore maintain a high-quality portfolio, Liberty Properties sold five retail and commercial properties for R58,1 million, of which R55,4 million accrued to the Group. The Liberty Parkade opposite the Group's Johannesburg head offices will be completed before April 2003.

The blue-chip hotel portfolio performed exceptionally well on the strength of the increased numbers of leisure and business tourists to South Africa. Hotel occupancy rates were maintained at 100% for prolonged spells on several occasions during 2002. The higher end of the South African hotel industry in major cities was able to maintain rates nearer to those of the international industry. Liberty Properties' income from the hotel portfolio exceeds the budgeted income by more than 50%, a clear indication of the vigorous revival in local tourism.

Liberty Properties continues to invest in its flagship hotels to maintain world-class standards. Portions of the Sandton Sun are to be renovated in phases over the next few years. Cape Town's Cullinan Hotel will be upgraded during 2003 to feature six new suites, among several other significant enhancements.

Business unit's performance

Rm or %	December 2002	December 2001	% Change
Properties under management	12 578	11 999	5%
Headline earnings	24	19	28%
Headline ROE	90%	130%	(40%)



Managing Director:

Dan Pienaar

Divisional Directors:

Nicole Kennerly and Stephen Maasch



LIBERTY
HEALTHCARE

Profile

Established in 1998, Liberty Healthcare was repositioned during 2002. The two established Liberty Healthcare medical schemes, ProCure and ProVia, became The Liberty Medical Scheme and administration was transferred to Medscheme with effect from July 2002. Medical Lifestyle, the Group's comprehensive health insurance product, was overhauled and prepared for introduction to the market in January 2003. The Group has thereby gracefully exited the highly competitive, low-margin business of being a medical scheme administrator and has recommitted itself to the health insurance market.

Business review

Liberty Healthcare's restructure and repositioning during the year was prompted by the changing medical schemes and health insurance environment in South Africa. Until recently, the business unit was administering the Liberty Medical Scheme (previously ProCure and ProVia), as well as the Medical Lifestyle health insurance product.

During 2002, Liberty Healthcare undertook a strategic, long-term review of its inherent business opportunities for sustainable growth and profitability in the context of new legislative impacts and the highly competitive status of the South African medical schemes industry. After completing a comprehensive strategic review, it was decided to transfer all the businesses' medical scheme administration to Medscheme for three main reasons:

- medical schemes business was being increasingly limited to administration only, thereby moving further away from the core business of insurance;
- the costs of adapting existing medical schemes to comply with new legislation would be prohibitive, especially in terms of enhancing information technology and management; and

Performance of business units and subsidiaries *(continued)*

- the envisaged strong growth in the membership base would increase the administrative and technology cost burden in what has become an exceptionally competitive, low-margin business.

The South African medical schemes industry has undergone a period of unprecedented uncertainty and turmoil. More disconcerting, however, is the fact that consumers, most especially medical scheme members, have had to contend with a double-edged inflationary sword. While medical inflation in general and, more specifically, medical scheme membership fee inflation are running well above the consumer price index (CPI), the scope of medical scheme membership benefits continues to decrease.

Another significant new impact is the South African Government's recent announcement of its intention to implement some form of a national health scheme, such as the one maintained in the United Kingdom, before 2010. While this is a welcome socio-economic development for the greater benefit of South Africans, especially poorer communities, a national health scheme could severely stifle the growth potential of the country's already hard-pressed medical schemes industry.

Strategic business acquisitions and joint ventures aimed at increasing critical mass and economy of scale were also explored in detail. These options, however, were dismissed after extensive deliberation in favour of exploiting Liberty Healthcare's

stronger potential of becoming, and remaining, the pre-eminent player in the promising health insurance sector. Accordingly, considerable effort was invested to revise and upgrade the established Liberty Medical Lifestyle product, to be marketed as Liberty Medical Lifestyle Plus in 2003. The innovative, flexible and multi-featured Medical Lifestyle Plus product, evolved from a proud Liberty tradition of developing unique insurance and investment products in response to changing market trends and needs, provides financial protection against high-impact health-related events over which the policy-owner has little or no control.

Liberty Healthcare is confident of its ability to increase its principal membership base from 70 000 families at 31 December 2002 to about 100 000 families before the close of 2003. Within the first two weeks of launching Medical Lifestyle Plus, almost 2 000 new policies were written and a further 3 000 enquiries were received from potential policy-owners.

The massive programme necessary to transfer medical schemes administration to Medscheme has been completed successfully. Liberty Group, through Liberty Healthcare and Liberty Consultancy, continues to provide both sales support and technical product development input to the expanded Medscheme medical scheme operations.

Liberty Healthcare is now a far more streamlined and focused enterprise with a higher potential to become a notable contributor to Group headline earnings during the 2003 and subsequent financial years.

Business unit's performance

Rm	December 2002	December 2001	% Change
Healthcare business contribution to Group headline earnings*	29,8	(12,7)	335%
Principal lives (Liberty Medical Scheme) – number	45 122	32 704	38%

*Including once-off revenue in terms of the transfer of the administration to Medscheme in 2002.

Performance of business units and subsidiaries *(continued)*

STANLIB Limited

Executive Chairman: Roy Andersen

Directors: Doug Band, Mark Bloom, Deon de Klerk, Barry Fraser, Themba Gamedze, Buddy Hawton, Mike Jackson, Ben Kruger, John Liackman, Selwyn MacFarlane, Alan Miller, Alan Romanis, Myles Ruck and Peter Wharton-Hood



STANLIB Wealth Management

Chairman: Roy Andersen



Chief Executive Officer: John Liackman

Directors: Carlos Amaral, Mark Bloom, Deon de Klerk, Andre du Plessis, Mike Jackson, Anthony Katakuzinos, Mike Lledo, Martin Rabe, Ian van Schoor and Peter Wharton-Hood

STANLIB Asset Management

Chairman: Roy Andersen

Deputy Chairman: Ben Kruger



Chief Executive Officer: Alan Miller

Directors: Mark Bloom, Deon de Klerk, Themba Gamedze, Mike Jackson, John Koel, Jerome O'Regan, Sidney Place, Errol Shear, Anthony van Eden and Henk Viljoen

STANLIB Limited

Profile

STANLIB was formed with effect from 1 January 2002. Its roots and credentials are long established and brings together the wealth management, asset management and wealth product marketing of the Standard Bank and Liberty groups.

STANLIB serves local and African markets and offers a product mix featuring both local and global brands. It is a wealth manager designed to meet the needs of both the institutional and retail markets by combining sophisticated products with expert advice and people. Funds under administration at 31 December 2002 amounted to R48 billion while assets under management exceeded R128 billion. STANLIB was officially launched in May 2002 and carries on two main streams of business:

STANLIB Asset Management (focused on the management of institutional and retail funds as well as investment portfolios.); and

STANLIB Wealth Management (focused on unit trusts management, financial product development, product marketing and client support).

Business review

Due to the fact that STANLIB was formed on 1 January 2002, the results for the year ended 31 December 2002 are not comparable with 2001, which reflect the results of Milfin Holdings (Proprietary) Limited.

STANLIB performed to expectation by generating headline earnings of R112,4 million and contributing R56,2 million to Liberty Group's headline earnings. STANLIB Wealth Management's funds under administration decreased by 1% from R48,8 billion at the beginning of the year to R48,3 billion at the end of 2002 with assets under management of STANLIB Asset Management remaining flat at R128,4 billion in a year where net inflows were offset by weak investment markets.

STANLIB Wealth Management

Profile

The business has a 400 000-strong client base and markets the largest pool of unit trust assets in South Africa. The division combines the strengths of the former operations of Liberty Collective Investments, Liberty Specialised Investments, Standard Bank Linked Investment Services, Standard Bank Unit Trusts and Lodestone Investments.

The business has an excellent distribution network comprising 800 independent financial advisors, 4 500 financial advisors supporting Liberty Group, 924 Liberty agents, 843 Liberty franchise agents, 470 consultants from Standard Bank Financial Consultants and a growing investment products sales force operating through 552 Standard Bank branches. It also distributes through a national branch network and key electronic media, notably the Internet and Standard Bank automatic telling machines.

Business review

In a promising year of integrating the disparate cultures and operations of various Liberty Group and Standard Bank Group investment businesses, STANLIB Wealth Management has proven that the distinctive cultures of a merchant bank and life insurance company can be merged to create an even stronger culture and to pursue significant new growth opportunities at a time when world markets, especially stock markets, are at a low ebb.

STANLIB Wealth Management endured the severe impacts of lacklustre world equity markets and the exceptional once-off costs of establishing a new business. Increases in operating expenses were contained at targeted levels.

Considerable effort was devoted to integrating and streamlining the STANLIB information management and systems, along with building empowered teams of wealth management specialists equipped to rise to the challenges of delivering at consistently high standards according to the bold, new business strategies and mandates devised for this joint venture. Significant progress was achieved in streamlining the business structure to ensure maximum personnel empowerment and operational efficiency, with a concomitant drive to contain operational expenses and to therefore increase business margins. A concerted effort was also made to review and maximise the efficiency and effectiveness of the key risk management and compliance portfolios.

Another successful initiative was that of developing and promoting the distinctive new STANLIB culture, which has achieved desired levels of cohesion, focus, entrepreneurship and innovation. Opportunities were also identified to increase the

sharp focus on client service and to start implementing promising new enhancements in this crucial area. Working in partnership with STANLIB Asset Management, STANLIB Wealth Management identified opportunities to rationalise products and branding. It will continue to focus on new opportunities in the year ahead to maintain an essential portfolio of products in order to create maximum value for investors.

STANLIB Wealth Management has created South Africa's largest unit trust company and it is well placed to unlock new opportunities by having the advantages of desired critical mass and economy of scale under the custodianship of highly skilled and motivated investment professionals and support teams. Despite the challenges of integrating five different business units in a weak and volatile market, the business retained market share and is confident of increasing market share in 2003.

The robust foundation based on the powerful combination of a highly energised entrepreneurial culture, world-class skills and products, a strong technological and operational platform, and an excellent marketing and distribution network, all of which were developed further throughout 2002, augurs well for STANLIB Wealth Management's focused pursuit of business enhancement and growth opportunities during 2003. In essence, a uniquely powerful new business has been created for the institutional and private investors in South Africa, and its latent potential is expected to become more visible and harnessable during the remainder of the current decade.

World markets, especially equity markets, however, are expected to remain depressed and will, accordingly, impact on the business' profit potential in the year ahead.

STANLIB Asset Management

Profile

STANLIB Asset Management comprises the award-winning operations of Liberty Asset Management (Libam) and a team of handpicked investment professionals from Standard Corporate and Merchant Bank Asset Management (SCMBAM).

STANLIB Asset Management implements Liberty Group's policy-owner investment strategies, as prescribed by the Liberty Group investment operations committee. It also manages segregated funds for third-party clients, as well as most of the Liberty and Standard Bank unit trust portfolios.

STANLIB Asset Management enjoyed a net inflow of funds of R2 billion in 2002. Assets under management, however, did not grow in rand terms due to the fall in equity markets. At year-end, assets under management totalled R128,4 billion.

Performance of business units and subsidiaries *(continued)*

STANLIB Asset Management's investment professional team features one of South Africa's highest concentrations of chartered financial analysts, as well as two doctorates (PhDs).

Business review

In a notably challenging year characterised by declining equity markets worldwide, and exacerbated by the exceptional once-off costs of establishing the new STANLIB offices, technological platforms and support operations, as well as the costs of retrenchments, STANLIB Asset Management performed to expectations and generated an operating profit of R44,0 million.

In keeping with Libam's award-winning tradition, STANLIB Asset Management delivered solid investment performance.

Capital was preserved in the face of a savage bear market. The Life Fund main equity portfolio, in particular, performed well by delivering a return of 0,8%. This is a significant achievement given the total return of minus 8,2% on the FTSE/JSE All Share Index. The Life Fund bond portfolio beat its benchmark, the All Bond index, by more than 2%.

The business' international assets had a poor absolute performance primarily because of the dramatic decline in international equity markets and the strong appreciation of the Rand against major world currencies. About 15% of all assets are invested offshore.

Going forward, STANLIB Asset Management has established a sound platform for sustainable growth and an all-round pleasing contribution to Liberty Group profits, subject to the vagaries of key investment markets worldwide in 2003.

Business unit's performance

Due to the fact that STANLIB was formed on 1 January 2002, the results for the year ended 31 December 2002 are not comparable with 2001, which reflect the results of Milfin Holdings (Proprietary) Limited.

Rm or %	Total 2002 Rm
Total income	562
Operating expenses	420
Headline earnings	112
Total assets	2 773
Total liabilities	1 174
Assets under management	128 432
Funds under administration	48 328

Group value added statement

	31 December		
	2002	2001	%
	Rm	Rm	Change
Group value added			
Premium income and reinsurance recoveries	16 660,1	14 330,7	16,3%
Investment and other operating income ⁽¹⁾	(1 468,3)	17 590,4	(108,3%)
Commissions paid to agents and brokers	(1 559,4)	(1 229,2)	26,9%
Payments to suppliers of material and services	(685,5)	(709,3)	(3,4%)
Wealth created	12 946,9	29 982,6	(56,8%)
Wealth distributed among stakeholders⁽²⁾			
Employees			
Salaries and other benefits	791,9	842,8	(6,0%)
Government	595,6	1 580,8	(62,3%)
South African normal tax	329,4	437,4	(24,7%)
South African capital gains tax	(215,1)	520,8	(141,3%)
Retirement fund tax	155,9	169,0	(7,8%)
Secondary tax on companies	95,0	264,6	(64,1%)
Foreign normal tax	3,2	1,8	77,8%
Value added tax	160,1	127,6	25,5%
Regional services council levies	17,8	18,3	(2,7%)
Stamp duty	36,8	32,5	13,2%
Financial services levy	8,0	5,8	37,9%
Rates and taxes paid to local authorities	4,5	3,0	50,0%
Policy-owners			
Policy-owner claims, benefits and increase in reserves	10 045,9	24 706,4	(59,3%)
Providers of capital	1 106,4	540,2	104,8%
Ordinary dividends paid to Liberty Group Limited shareowners	851,0	348,1	144,5%
Earnings attributable to preference shareowners	81,9	42,9	90,9%
Earnings attributable to convertible bond owners	173,5	149,2	16,3%
Retentions to support future growth	407,1	2 312,4	(82,4%)
Retained surplus	247,8	2 141,3	(88,4%)
Depreciation and amortisation	159,3	171,1	(6,9%)
Wealth distributed	12 946,9	29 982,6	(56,8%)

Group value added is the wealth created by the Group from its products and services. The statement above shows how this wealth created has been distributed among the Group's stakeholders.

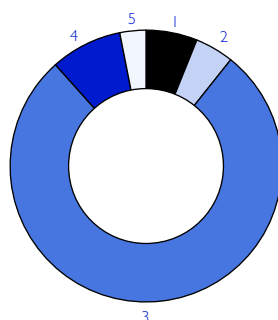
(1) Includes investment surpluses/deficits.

(2) Excludes the capital reduction of R3 260,0 million.

2002

Wealth distributed among stakeholders

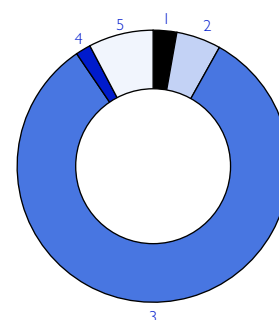
- 1 Employee salaries and other benefits **6,1%**
- 2 Government **4,6%**
- 3 Policyholder claims, benefits and increase in reserves **77,6%**
- 4 Providers of capital **8,5%**
- 5 Retentions to support future growth **3,1%**



2001

Wealth distributed among stakeholders

- 1 Employee salaries and other benefits **2,8%**
- 2 Government **5,3%**
- 3 Policyholder claims, benefits and increase in reserves **82,4%**
- 4 Providers of capital **1,8%**
- 5 Retentions to support future growth **7,7%**



The Liberty Foundation believes that South Africa desperately needs a full-time educational television service to deliver a timetabled curriculum to under resourced schools countrywide.





Hylton Appelbaum – Executive director

“THE LIBERTY FOUNDATION
CONTINUES TO BE DRIVEN
BY AN EFFECTIVE
PHILOSOPHY OF HUMAN
EMPOWERMENT”

– Hylton Appelbaum

THE LIBERTY FOUNDATION IN A NUTSHELL

Founded by the Liberty Group in 1971, the Liberty Foundation is rooted in the premise that the tangible and longer-term empowerment of disadvantaged and under resourced people, both as individuals and as groups, is far more effective than providing short-term handouts to needy communities and welfare organisations.

The Foundation operates on the principle that people in historically disadvantaged South African communities can and should be empowered to have and pursue positive choice so that they, too, can achieve sustainable self-sufficiency and thereby play a more constructive role in helping to unlock the country's socio-economic potential, as well as their own unique human potential. In a nutshell, the Liberty Foundation regards poverty as the single greatest adversity facing South Africa, and it will therefore continue to mastermind and support every possible initiative within its powers to ameliorate the plight of the poor and the underprivileged.

In recent years, the Liberty Foundation has carved an indelible niche as a highly responsive and innovative facilitator of social development and upliftment programmes, most notably in the fields of education and training, small-business development and the creation of new job opportunities. Since 1990, the Foundation has invested more than R320 million into social development throughout South Africa, thereby reaffirming its proud status as one of the country's pre-eminent corporate custodians of meaningful socio-economic development.

In response to the ever-changing South African political, social and economic environments, the Liberty Foundation made a strategic, long-term decision during 2002, after comprehensive re-examination and consultation with stakeholders, to intensify its focus on, and its investments into, supporting priority education and training programmes. This strategic shift was

undertaken with the overarching objective of helping to raise the numbers of educated and empowered people in South African society at a time when the maximisation of human skills and potential is so critical.

While this is a commendable development within the context of serving South Africa's highest-priority socio-economic needs, the Foundation, sadly, has had to terminate its support for several other deserving community upliftment and development projects, including its support for a few key non-governmental organisations (NGOs). Besides supporting high-impact educational initiatives, Liberty Foundation is involved in strategising and designing a major new initiative to help counter the devastating HIV/AIDS pandemic.

FOUNDATION INITIATIVES

Change of emphasis to strengthen focus on education

The consequences of the Bantu Education Act of 1953 still lie at the heart of the crisis in South African education. Its inescapable outcome, two generations later, is a desperate shortage of qualified mathematics (maths) and science teachers. Today 27% of South African learners are taught maths by teachers with no formal teaching qualifications in the subject, while 38% of learners are taught science by teachers without formal science teaching qualifications. Science and maths remain vital subjects to any education system, especially if a country such as South Africa is to compete globally in a plethora of technological fields.

The 8th grade results of the Third International Mathematics and Science Study Repeat (TIMSS-R) illustrate the depth of the crisis facing South African education. The South African results were the lowest by a wide margin. The country's mean score in maths was 275, well below the international mean of 487 and significantly below the mean scores of all other participating countries, including the two other African countries Morocco (337) and Tunisia (448). To further contextualise the challenge facing South Africa, the United States' (US) maths score was 502 and Singapore's 604. South African learners also performed dismally in science with a mean score of 243, well below the international mean of 488 and substantially lower than Morocco (323) and Tunisia (430). In science, the US scored 515 and Singapore 568.

In seeking the pragmatic solutions to the crisis facing the South African educational system, Liberty Group, under the auspices of the Liberty Foundation, has been compelled to develop and implement unusual support and development initiatives in education. In essence, the Foundation has tried to see what works, and has successfully and speedily implemented common-sense solutions.

The first hurdle facing the Foundation was how to deliver maths and science lessons on a national scale because there are so

few adequately qualified maths and science teachers. The obvious answer was television (TV), a communication medium with the potential to convey one good teacher in a TV studio into thousands of classrooms and living rooms across the country. To this end 13 years ago, the Foundation and the South African Broadcasting Corporation (SABC) began televising comprehensive revision and preparation material for Matriculation (Matric) examinations in maths, science (physics and chemistry), biology and English.

The Foundation's live, interactive televised education programmes are currently broadcast by the SABC over approximately 600 hours a year at no cost to the beneficiaries. TV has proven to be an efficient and cost-effective medium. School learners with access to a telephone can call the studio to ask the teacher questions. The Liberty Foundation through, the TV Africa network, also broadcasts hundreds of hours annually across most of the African sub-continent, including Ghana, Nigeria, Kenya, Tanzania, Rwanda and Burundi.

Video came next as an obvious medium for extending the life of TV broadcasting. The Foundation's learning materials are available on video, and the schools that have been using them properly have achieved outstanding results.

While broadcasting proved to be successful, the Liberty Foundation identified an opportunity to enhance the power of TV-based educational programmes by developing essential print-based curriculum material to be circulated in larger metropolitan regions as newspaper supplements. This was deemed relevant because most school learners in these areas do not have textbooks. A learner who collects the weekly newspaper supplements can compile his or her own loose-leaf form of a textbook over the course of a school year. The Sowetan was the Foundation's first print media partner. The results were pleasing enough to inspire the development of a wider programme of circulating curriculum material through other major newspapers, both dailies and weeklies.

The Liberty-sponsored curriculum material is currently being distributed nationwide by various major publications, including The Daily News, Cape Argus, The Star, Sowetan, Eastern Province Herald, Pretoria News, Die Beeld and Die Burger, as well as three national Sunday newspapers, Sunday Times, Rapport and City Press. The Sunday Times/Liberty ReadRight tabloid supplement won the 2002 global award for operating the world's most innovative newspaper programme for encouraging young readership at the Young Reader Awards of the World Association of Newspapers. Liberty and the Sunday Times previously won this prestigious award in 1999 in recognition of promoting community literacy.

Besides the primary objective of placing low-cost, high-value learning materials into the hands of learners without textbooks, the Liberty-sponsored educational supplements offer three other key benefits:

- Illiteracy is a major problem, but so is aliteracy, the condition of having nothing to read, or not even wanting to read what little there is available. Providing schools with newspapers encourages reading in general.
- While the Group takes pride in South Africa's vibrant civil society, the country is at risk of not maintaining its democratic institutions if South Africans do not continue to enrich an open and tolerant culture in which young people, their parents and their teachers use newspapers to keep themselves meaningfully informed on major domestic and global events and issues.
- Developing and maintaining a broad general knowledge is a cornerstone of any good education. Newspapers play an integral part in most people's development of their general knowledge.

As the Foundation witnessed the success of its involvement in delivering curriculum-based educational material through television and newspapers, the organisation began to experiment with the Internet and funded the learn.co.za website. Through the Internet, the Foundation started to disseminate essential learning material free of charge. Liberty Foundation is currently funding the project to reconstruct and enhance the learn.co.za website for relaunch in mid-2003.

Based on the experience gained through its various technology-based interventions, particularly its broadcasting (where research has shown increased pass rates of up to 300% in some schools) – and after concluding a thorough investigation and feasibility study, the Foundation is spearheading a project to launch a range of free satellite-based education channels. The Foundation is confident that this project will help to address the crisis in schooling by providing additional high-quality learning materials, particularly in the schools that have under qualified or even no maths or science teachers.

The Liberty Foundation believes that South Africa desperately needs a full-time educational television service to deliver a timetabled curriculum to under resourced schools countrywide. Schools must be able to plan their schedules to incorporate televised curriculum materials in those subjects where they are necessary. The SABC, for obvious commercial reasons, cannot make enough time available on a terrestrial platform to broadcast essential education programmes between 08:30 and 21:00 daily. The Foundation therefore decided to build a new satellite-based education platform. The organisation's informed choice of television as the primary delivery medium was based on the broad availability of

TV sets and the high success of the Foundation's previous interventions, as well as by television's ability to be blended into multimedia and Internet-based platforms.

Consequently, in partnership with various like-minded organisations, the Foundation has funded the formation of a new, independent, non-profit initiative that now owns a range of educational channels. These channels will be launched in phases during 2003 and 2004.

The first school-focused channel, which had its pilot broadcast and assessment period during October 2002, is focused on Grades 10, 11 and 12 maths, science and English (biology and business economics or accountancy will follow). The rollout of Grades 10, 11 and 12 will coincide with the teacher training on phasing in the new FET curriculum.

Top-level content teams are working on the underlying teaching plans and lesson formatting and are currently strategising the Foundation's research and evaluation process. A multiracial pool of highly competent teachers has been identified and the production of broadcastable education programmes is progressing well.

The content will be taught primarily in a "chalk-and-talk" manner; but updated and revised for the 21st century in that web-based applications and dynamic animations will be fully integrated into the broadcasts. Teachers will be able to download and print supplementary resources. There will be a daily call-in time when users will be able to phone a teacher and have their questions answered live on television. This has been done successfully for several years through the Foundation-sponsored terrestrial TV platform. All curricula for the proposed programmes have been designed and developed in an outcomes-based format. Through this format, specific sets of predefined outcomes are articulated and teaching is focused primarily on developing a greater value of underlying skills rather than pursuing the more traditional rote approach towards education.

The content is based on the national Further Education and Training and General Education and Training curricula. A curriculum management system is being used to ensure that adaptations can be made easily and efficiently to ensure alignment to any frameworks. Where unit standards have been available, the content has been aligned, and both notional hours and National Qualifications Framework (NQF) credit requirements have been met.

A repeat programming timetable has been structured to facilitate viewing during school hours, afternoons and weekends. This structure allows for the easy taping of learning areas, repeats of which have been grouped in blocks for recording.

This content will be broadcast free to schools, community centres and homes from 08:30 until at least 21:00 daily via the

PAS 7 satellite to decoders that can be linked to either a TV set or a personal computer. This digital platform allows for the transmission of data or video, which is in line with the South African Government's plans for a national school digital grid. PanAmSat is donating the necessary bandwidth, seven days a week, 24 hours a day, for at least a year. Agreements have been reached with the satellite-based subscription broadcaster, Multichoice, to carry the channels through its decoder-based TV system to provide a free service to schools. In addition, Sentech is to carry the channel on its decoders. SABC Education is considering the possibility of providing the terrestrial broadcast platform.

The new educational channels will provide the correct South African curriculum-specific content in digital format for the various initiatives being funded by both the Government and several other agencies, all of whom are investing enormously in hardware and software projects in schools.

Although the Liberty Foundation's primary focus is on assisting under resourced learners, the organisation remains responsive to the needs of teachers. In line with Government policy, the Foundation is encouraging teachers to use these resources by:

- delivering to them appropriately aligned outcomes-based content and by providing sufficiently detailed programming for them to choose lessons to use at the appropriate point in the curriculum;
- actively encouraging the asynchronous use of video where teachers are in control of the time and place of viewing; and

- designing specific teacher tips and support on classroom management and the use of broadcast, video and Internet materials.

The second TV channel will focus on the HIV/AIDS pandemic and will deliver valuable information on pre-HIV test counselling and post-test counselling, as well as educational material for HIV-positive pregnant women, feeding mothers and caregivers to the terminally ill patients, and on nutrition and positive lifestyle to the 7 000 South African clinics orchestrating the onslaught against HIV/AIDS. South African clinics, in general, remain desperately under resourced and undercapacitated. Patients generally have to stand in queues all day, nurses are woefully ill-prepared and the counsellors (where they exist) seldom cope. In addition, the country cannot roll out effective antiretroviral therapy until there is a smarter way of educating patients in the official language of their choice. This initiative will be launched later in 2003 and will involve a few exciting partnerships, including the best NGOs in the field.

The Liberty Foundation hopes to be able to use all the functionality of the digital broadcasting, narrowcasting, interactivity and video-on-demand media as part of the HIV/AIDS education and support programme. The Foundation can store all the content, and the counsellor, nurse or doctor in an individual clinic can choose the information needed as required. The same infrastructure can be used to fight other prevalent diseases, including tuberculosis and malaria.