

**JAMES STRONG**

Ladies and gentlemen, I'd like to welcome everybody to the 2003 Annual General Meeting of the shareholders of Insurance Australia Group Limited. It's now past the appointed time for the holding of this meeting and we certainly have a quorum present, I'm pleased to say, so I'd like to officially declare the meeting open.

My name is James Strong and I'm the Chairman of the Board of Directors of Insurance Australia Group. In accordance with the company's constitution I will be chairing this meeting. I don't think we have any formal apologies, company secretary, so I intend to begin the meeting by making the traditional chairman's address. Then I will ask Michael Hawker who's sitting on my left as CEO to give you a briefing on where the company is, how it's performing, current issues and the outlook in the immediate future.

Ladies and gentlemen, the main purpose of the official address as chairman today is to provide you with a brief overview of the past financial year and to comment on other significant events that have occurred from a board perspective. As I mentioned, I'll be asking Mike Hawker as our CEO to speak in more detail on the operations of the company over the last year and also to comment on the present financial year; the first quarter has finished, as you know. I'm not proposing in this initial address to speak to the individual items of business that we have before us today because I think it's more effective if I make those remarks on each of those items as we come to them when you'll be making your own comments.

In terms of characterising where we are I'd like to say that I believe we have just finished what I would call a watershed year, a year which will be very important when we look back in the history of this company. The last financial year has been a watershed for us in the sense that a great deal has been achieved. IAG is now clearly

the leading general insurance group in this part of the world, Australia and New Zealand, and we believe that we're very well positioned for the future.

Just as a matter of interest, in approximate terms when we met here last year our share price was about \$2.50. Last night it closed at \$4.50 so in the meantime it's gone up by 80%. Our capitalisation on the market when we met here last year was about \$3.7 billion. Yesterday on market value it was about \$7.3 billion. So I hope you agree with me that it certainly has been a year of great change but it's been a very significant year.

One of the things that increased the size of our business so rapidly of course was the acquisition of CGU and NZI. As you know, we carried out this as a major acquisition - it nearly doubled the size of our group - because the board after a lot of very careful consideration - and as you'll see from our Annual Report, many meetings - considered that CGU and NZI was the absolutely right purchase for us to make at the right time to seize a specific opportunity which was unlikely to recur and was unlikely to exist for very long.

Despite some people and commentators not agreeing with that at the time and saying that they thought we paid too much for it, I think you can see that the subsequent financial performance of the acquired businesses and the movements in our share price have emphatically endorsed this strategy to the benefit of shareholders, which ultimately is the purpose of conducting our business.

The inclusion of CGU and NZI has transformed the combined business and completed our evolution from a company servicing only New South Wales and the ACT to a truly national business operating throughout Australia and throughout New Zealand. Both of these companies, CGU and NZI, have added real value to our group.

If you go back less than 10 years ago, NRMA Insurance Limited offered three products but today we are fully diversified both by the products that we sell, by our geographic distribution, and by our distribution channels which have multiplied as well. What is pleasing about that is that it's been done in a way that we still have one of the highest financial strength ratings by Standard & Poor's for an insurance company in this part of the world.

Just a brief comment on our group performance. In terms of ongoing business the whole group performed very well and that's an important element that it's not just one part of our business that's carrying us. I think that the framework for that performance is very important because what we've sought to do is to establish stability within the company so that the management can get on with the job and focus on running the business properly and you'll see now - and you'll hear when Mike speaks - about just how much detailed focus there is on the actual operations of the company which is how any company should be, not distracted by other things.

Our overall returns from investment have increased in the last year. You know it's been a very tough time for investment in equities, you'd know as shareholders yourselves. Both the change to our asset mix and improved market conditions have helped that return from investments as well.

In terms of the strategies that the board and the management acting together have been following and intend to follow, our focus now and over the next year or more will be to keep on improving every element of our business. There's tremendous opportunity for us to further improve our business with what we have. This is absolutely in accordance with the five-year strategy which we spoke about to you last year and I think another thing that characterises the state of the company now is the

very good working relationship between the management and the board. It's a very positive relationship and it works very well.

As I said, Michael will speak in more detail on the components of our current strategy and our progress and how this is flowing through to the results. We're very pleased with progress to date, particularly with the CGU NZI acquisition and integration. Integration is always the difficult part. Doing the transaction is one thing but doing the integration is another and I'm pleased to say that our integration remains on track. We believe it's delivering the anticipated \$160 million pre-tax per annum in sustainable expense synergies or in other words, savings.

We're delighted to have the CGU and NZI management and staff now in the same team and it's very clear to us that the CGU and NZI people have been a great addition in terms of the knowledge that they've brought to the business, their different experience and their different skills which have turned out to be very complementary to the existing group.

There is still a lot of hard work and attention to detail so that we can fully realise the potential benefits to achieve lower costs, greater scale, improved efficiency and stronger market presence which is - the fundamental reason why you seek to grow is because it brings benefits with it in terms of your scale and your ability to reduce costs and it gives you a stronger market presence.

A brief comment on dividends. Last month we paid ordinary shareholders a final dividend of 7¢ per share bringing the total annual dividend for last year to 11.5¢ per ordinary share which is 9½% higher than the previous year. I can assure you that the board is continually looking at this issue of future dividend policy because it's one of the most important outcomes from shareholders' point of view.

In terms of governance - this is obviously an issue that you sort of have with your cornflakes every morning, it's constantly in the media - I would like to say to you that our conduct over the previous year or two years has shown that you have a responsible board and management and that we certainly are committed to proper governance to ensure predictability and performance. In any corporation and particularly in the insurance business, a lot of governance is about minimising - understanding, managing and minimising risk and it's a constant big issue for us.

So a key issue in the way in which the company operates is to have a sound structure within the company for how we make decisions, how we test decisions and how we carry out transactions on a day-to-day basis throughout the group. Because of the complexity and the special risk structure involved in insurance, we have two large committees who keep a very close watch on day-to-day operation of the company. One of course is the Audit Committee which is traditional and very important and it's chaired by John Astbury. The other special committee is the Risk Management and Compliance Committee which is chaired by Rowan Ross and that is a special committee designed for the nature of our business and watching very closely in areas to do with - exactly as it says - risk and compliance. Our third board committee is the Nomination, Remuneration and Corporate Governance Committee, which must set a new record for a long title. I chair that committee and its role is obvious from the title. We've set out in the Annual Report for your information the roles and responsibilities of those committees so that if you're seeking to understand how that structure works to govern the business you can see it in the Annual Report.

In terms of the risk situation we make sure that each year the directors as a group meet with our external auditor - who is here with us today and whom I'll refer to later and of course KPMG is our external audit firm - and we discuss any comments that that

auditor has directly with the board on their impression about the risk culture and the risk management within the company. That includes reporting on specific risk reporting procedures.

I think we all know as people with common sense – and I'm sure all of you do – that it doesn't matter what the legislation or the regulations say about governance and so on and the way in which business should be conducted. In the end the most important issue is the integrity of the individuals involved. So in the way in which we run the company we place great emphasis on who we select to work with the company at every level, how they're trained, how they understand our standards and what we expect of people. We talk openly obviously about corporate ethics and of course leadership which is terribly important in setting the tone throughout the whole corporation. It's no good talking about it if that's not the actual behaviour that people see day by day. I'm really pleased to say that I believe that Michael Hawker has provided excellent leadership in this area, setting the standard by his own behaviour day to day.

We've also moved quickly to adopt recent developments in corporate governance, many of which unfortunately were brought about by either poor governance or straight-out dishonesty in other countries and even potentially in some cases in Australia, and therefore we've moved where there's been public concerns or changes in regulatory guidelines to make sure that we conform or stay in step with those changes.

Of course one of the biggest areas of those changes this year has been the principles released by the ASX Corporate Governance Council which many people here would be familiar with, which themselves were the outcome of quite a big group of interested parties working together for some time. They're quite comprehensive and

as you know, there are still more guidelines being issued. Just some examples of that, we've decided to freeze the operation of the board retirement benefit scheme which applies to – has applied to non-executive directors and we ceased that from 1 September this year so there will be no future accrual of benefits on the basis of service by directors and the scheme will phase out as it will not apply to new directors.

We also took specialist external advice on board remuneration although there is nothing before you seeking any increase in the amount which is set for the payment of board fees. Why did we do that? Well, there were some major changes since these were last reviewed and the factors that we took into account included removing the retirement benefits which had been previously applicable. There obviously has been a significant increase in the size and complexity of our business. We've looked at the trend in remuneration by other companies. We also have an unusual degree of involvement of our group directors in subsidiary boards and subsidiary companies and of course – and I will be referring to this again later – we've actually reduced the size of our board which makes a bigger workload on individuals and last year, as I mentioned, was a particularly busy year.

As a result of the advice, the remuneration for non-executive directors was increased with effect from 1 September. I might point out that it was the first change in the remuneration of directors since the company was listed and the new schedule of fees still falls well within the sum which was approved at the time of the float of this company to pay directors. The standard fee for a non-executive director was increased from \$70,000 to \$100,000 per year and the chairman's fee stays at the same level of three times the base fee for a director.

In the case of the chairman's fee the chairman will not receive additional fees for serving on the Nomination, Remuneration and Corporate Governance Committee nor the Audit Committee nor the Risk Committee or for serving, as is the case at the moment, as a director of our captive reinsurance company, IAG Re.

We've also formalised our practices in relation to engagement terms for directors by developing new letters of appointment which are quite specific on things like the length of service of directors, the review of performance of directors and all of those other things which have been introduced in recent time. The term that we've adopted for the standard tenure of directors is two full three-year terms or up to seven years which can be extended by specific invitation of the board.

On the basis of their length of service previously, two directors, Maree Callaghan and Mary Easson – and I'm very pleased that Mary is here with us today, thank you for attending, Mary – advised that they would not seek re-election at this AGM and they have retired from the board as from 1 September this year which most of you would be aware of. I'd like to take this opportunity to express my appreciation for the contributions that Mary and Maree made during my term as chairman because I can tell you that they've worked effectively during the period I've been involved with other board members to achieve the things that I spoke about earlier on through the board as a group.

Following the retirement of Mary and Maree, the board decided to reduce its size to eight directors which we think is just the right number when we look at the workload and the various committees and so on and that eight of course is seven non-executive directors whom you see here today plus Mike and Mike is on the board because he's the managing director of the group. So you've got seven non-executive directors, in other words outside directors, and I'd just like to mention – although I'm sure many

people would be aware of this – according to the tests which are applied by the stock exchange, all of those seven directors are independent directors. In other words, they don't have some interest in the business or some past history which would potentially conflict with the business.

I'd like to finish my presentation here by saying a little bit about our future priorities because they're very clear from our perspective. We're pleased in a moderate sort of way that this has been a year of achievement for the group and I'd like to thank my board colleagues, the management and all of our staff for a very solid year because I can assure you it's been a year of hard work. The lights have been burning for long, long hours in George Street and throughout our organisation. In particular, I'd like to thank Mike Hawker for his excellent leadership as chief executive. The one thing that I think is very important from a board perspective and I hope from yours is that we have now a very capable management group and that's vital to our continuing success. The way that group has coalesced together, the standard of the work that we see them generating in every area from actuarial calculations to financial analysis and so on is of a very high order. In fact, it's of such an order that the big issue now is not to lose those people which obviously is a very serious issue as well.

I think as a group this year we've demonstrated stability in the company which was very important. We've taken decisive actions which were not easy ones in relation to a big acquisition and the risk in terms of properly integrating that but it has created a new platform for the future of this company. I could even say to you informally one of our aims for this company is to make it boring. I think we've had enough of being a blood sport in the past and people turning up so they could see fireworks and so on. But when I say boring I don't mean boring as a company. In fact, we want it to be a

very dynamic company internally and seen that way by the public and a very responsible company and we think we're well along that road.

Our focus now is to consolidate what we've got, achieve our full potential by reaching the highest standards in the way we operate day to day, the way we treat customers - and that is obviously fundamental, the atmosphere for our staff, that there's one of incentive and opportunity and so on, and so that way we'll create a company which operates at a very high standard every day of the week.

I can assure you that as we go through our business and our role as guardians for you on the board of the company, we're very clear about those priorities. Nobody has any differing views. Our commitment is to realising the maximum benefits from all the opportunities that now we have within our group so that we can deliver ongoing value to you as shareholders. Thank you very much. (APPLAUSE)

**MIKE HAWKER**

Thank you, chairman. Ladies and gentlemen, good morning to you all. From my perspective this has been a very pleasing year I believe for all stakeholders in the company. It's also been quite an interesting year for the management team and its Chief Executive of the board in that we've had a year which has encompassed both a record low share price of \$2.32 and a record high share price on Friday of \$2.55. I'm just pleased to say that the record high is after a record low otherwise I wouldn't be here.

What I'd like to do is take you through this morning three things. I'd like to just quickly talk about - if I can move my slide - talk about insurance, our role in insurance, then talk about the year in review and then looking forward. Firstly let me talk about our role in insurance. I think insurance is the ultimate community product. If you think about it we're all paying a small amount in a premium so someone else

can claim. As optimists, we never think we're going to claim so in many ways we're providing the support, the financial support for some poor unfortunate person who might have a major incident occur to them during a particular year.

So in our view our role is to pay claims, fundamentally we're there to pay claims and to do that as efficiently and as effectively and in as friendly a way as we can. That's fundamentally what we're there to do. The second thing though we think we're there to do is that we're there to price risk very efficiently. We should be experts in understanding how the risk that encompasses our everyday lives affects us and how we should therefore price premium. If we underprice it we have the risk of going bankrupt. If we overprice it then we have a very angry group of people in the community saying that "You're being inefficient."

The third thing I think that you expect of us is that you see us with a friction cost between the money coming in and the money we can pay out in claims. So I think we have a responsibility to manage ourselves as efficiently as possible and that also is reflected in those who provide the completion of the claim, those who provide supplies to the organisation, whether it be smash repairs, rebuilding a home, tow trucks, many other supplies that we engage on your behalf in meeting the claim, to make sure that those groups of people aren't using us and seeing us as a soft touch. So we have to manage very much the costs of our business and of meeting the claim to our customer base.

Then fourthly and I think most importantly, we have a lot of information about the risk inherent in day-to-day lives so we should be able to try and advocate to you as customers and to the community how we might be able to reduce that risk, how we might be able to help you reduce the likelihood of your car being stolen, how we

might be able to help you reduce the likelihood of your house being burnt down in a bushfire and similar opportunities.

So that's how we see our role and I think it's very important to understand that because people who work in our organisation fundamentally believe we are doing something which is of great community benefit. We're not coming today to work every day of the week so we're going to make more money. We're here to do something in their view which is of tremendous benefit to the community which at the end of the day will generate financial return to the company but it's not the purpose of coming to work.

The last thing I will say is that it's a business of economics, of scale and of diversification. We have to keep our costs down, we need to be a reasonable size to keep our overhead costs down and to drop our unit price, and we also need great diversification of risk so we can diversify our capital base to make sure that one particular concentration of risk does not debilitate the organisation.

So that's how we think about the company. Now let me take you through the year in review. As the chairman said, I believe it's been very much a watershed year. Today we have a very large organisation. We insure approximately 45% of all insured motor cars both here and in New Zealand. We insure approximately 38% of all insured homes in this country and about 43% in New Zealand, so we play a very important part in the consumer base of both Australia and New Zealand.

We employ over 11,000 people. We underwrite over \$850 billion worth of property risk - we underwrite a lot of other risk on top of that - and we're roughly the 20<sup>th</sup> largest listed company in the country, so we are a very large company and I think that needs to be understood when we think about what we should expect in terms of the profitability of the company and in terms of the number that we generate as a profit.

In taking you through the year in review I want to pick up four aspects - four aspects of our business from a customer perspective, from our people's perspective, from the community perspective, and from the perspective of you as investors. Firstly let's look at it from a customer's perspective. Here you can see a graph that shows the number of policies we now have in force and you've seen a continual growth of that over the last five years. We now have over 11 million policies in force. I think the most pleasing part about this year has been during a year when we've done a major acquisition we've also been able to build the performance of our underlying business with our customers. We've improved our customer satisfaction. We've improved our customer retention. Now for our major products we have over 90% retention of our customers each year which is a very high number in global terms. And we have dramatically reduced our complaint levels for the year which is critical for us. So overall I think that from a business point of view it's a significant improvement in what I think is already a very sound customer performance.

We're running a major program through the company called Getting It Right which was something we started round about June last year where we did a number of customer focus groups, we asked our front-line people who talk to customers on a day-to-day basis how they thought we could improve our service levels. We had over 1,500 people involved, we came up with 1,300 different ideas and we are in the process of implementing over 430 of them. That's a process which we shall continue over the next 18 months and we believe will continuously improve the quality of how we're offering our products and services to our customer base.

Now let's look at it from the community perspective. Many people talk about companies thinking about the community in corporate spin. There are fundamentally two things that matter to us from the community perspective. One is the environment

and the other is workplace health and safety. The reason for that is that 19 of the top 20 insurance catastrophes in this country have been driven by weather events, whether they be hail storms, cyclones, wind storms or bushfires coming from dry weather, 19 out of 20. The only one that's not a weather event was the earthquake in Newcastle back last decade.

As you can see from this graph on the wall here there is a very strong statistical correlation between the left-hand graph, which is showing rising water temperatures around the world, and the right-hand graph which is illustrating the increase in cost and frequency of major storm events around the world. This is a significant issue to us. We're doing a lot of work in talking to the community through the media and other parties about how we might be able to attenuate this impact of global warming because we are very concerned about the impact that this is going to have on future cost to the community. As wind speeds increase then you have incremental damage to homes. Most homes are built to a certain strength, wind speed strength. When you start to get winds over 65 kilometres an hour you start to get very much incremental damage and we're starting to see a greater frequency of such storms occurring right round the world, so this is a major issue for us. Internally we are trying therefore to reduce dramatically our own environmental footprint.

Similarly, if we talk about workplace safety, on the next slide, then we've got a very strong alignment with a number of organisations which are looking to help reduce risk - personal injury risk across the country. The reason for that is we're the largest workers compensation underwriter and claims manager in the country, so we're advising our corporate customers as to how they might be able to reduce injuries in the workplace. It's very much a key issue for our organisation. We're advising companies, we did an audit ourselves and we found that we actually had a workplace

injury rate which was five times the average, so we had a lot of work to do internally and so we've done a lot of work in the last year to improve our workplace safety and we've aligned ourselves with many organisations who deliver, I believe, wonderful help and support from a safety perspective in the community.

Most recently we've aligned ourselves with St John which is the first sponsorship deal that they've ever had as an organisation. We are now national sponsor of St John Ambulance. We are taking all our people through first aid training and we've already had one employee of the company who's been able to save their child's life through the first aid training they've received from St John's. So that is something which we're very pleased about and it's obviously something that we care deeply about and has a great benefit to our customers and to our own people.

Moving to people I'm going to just mention three things. There are many things we're doing in terms of trying to build the capability of the people who work in the Insurance Australia Group of companies. As we grow as a company we need to build the capability of our people. One of the processes we're driving through the company is what we call a talent matrix where we view all our people in two dimensions: firstly their capability; and secondly, their performance.

We try and do this three times a year with the management teams through the organisation and in doing so we're trying to create motion in the organisation which does a number of things. It promotes diversity. It ensures we have development plans for people. It maintains succession planning. It retains key people in the organisation and also focuses on those who are not performing so we can find an opportunity for those people where they can perform and be passionate about it.

The second thing that we're looking at is we're measuring on a regular basis the engagement of our people and I've just put here the six questions that are primary and

the survey we do and if you read through those, I'm not going to read them but if you get an opportunity to read through those you can see that they are a high bar and we strongly believe that if our people, the majority of our people believe and answer those questions yes then the performance of the company will directly increase by the increasing engagement of our people.

So we measure the management of our company in terms of how you're performing in getting your people engaged and that is through leadership and through encouragement rather than through control, which was typically the old way of managing. So this is something which we measure regularly and we measure the performance of our management teams regularly.

The third area I just want to focus on is culture. We have now acquired four major acquisitions in the last five years. We have people who have come from roughly 15 different insurance companies that now work in the organisation. They've come from vastly different cultural backgrounds so it's very important that we have a common culture for the organisation. We strongly believe as a management team that a common culture is derived through a common core set of values and the management team is driving a set of five common values through the organisation: honesty; meritocracy - making sure that we really promote people on merit; teamwork - we have 11,000 people, obviously we have to operate very closely together to make the organisation work; social responsibility because of the community nature of the product; and transparency, making sure that people don't hold information which is critical to be dispersed to people dealing with customers. Setting those cultural boundaries provides a control structure for the organisation and ensures, in my view, that the company acts consistently and with significant momentum.

Now moving to the investor side of our business, I've got two graphs here that just show you over five years the improvement in the revenue line where our revenues have grown systematically over the last five years and this year our revenue grew 45%. 36% came from the acquisition, 9% came from organic growth and of the 9% that came from organic growth, 5% came from policy numbers increasing and 4% came from premium rises. There's been a lot of discussion about insurance companies performing well at the moment because they're jacking up premium rates. I can tell you that this organisation is generating its profit by increasing its scale and dropping its costs more so than by raising its premiums.

The second thing you see here is the insurance profit. We've had five years of continuous improvement in insurance profit and that has come from five consecutive halves of underwriting profits and also an improvement in the investment return on our claims reserves.

The acquisition of CGU and NZI has proven to be in hindsight far better than expected. We have stronger revenues, we have a stronger earnings base and they've provided a better contribution to the bottom line. It's worthwhile saying - James mentioned from the integration we were expecting to generate \$160 million worth of savings for the year - for the 18 months that we're running the integration process. I'm pleased to say that we are still running ahead in terms of timing of receiving those benefits.

If we look at the key ratios in the business, if these graphs are going down they should be and if they're going up they should be, and I'd like to be able to keep saying that whenever I stand here each year. But it shows you our loss ratios, our expense ratios and that gives you a combined ratio and a combined ratio under 100 is something that we strategically are looking to maintain basically as far as we can into the future.

We're currently running a combined ratio at the full year of 95.7% which by global standards is a very sound performance. It reflects an insurance margin of round about 12% and we're looking to maintain an insurance margin for the business in a 9 to 12% range going forward.

If I just look at the next graph and I don't want to take you through all the numbers, there's only two lines I want to draw your attention to here. The one dark spot on our performance has been the return on our equities. We hold the majority of our shareholders' funds in equities because we believe that will generate the best long-term return for the organisation. However, since we've listed the company the equity markets around the world up till February this year had been falling and that is reflected in a negative line. If you look at the second arrow down that graph it shows you that last year we had a loss of \$234 million from our equities and this year we had a \$120 million loss, so that's been a drag on our earnings.

That is reflected therefore in a lower return on capital in after-tax terms than we would have liked. Last year it was a loss, this year it was a profit of only 4.7%. So despite the fact that we made \$153 million worth of profit, it was still only 4.7% return on equity. What we are looking forward to is reviving equity markets to bolster that return on equity to something which is more satisfactory in the long term. Please understand that that will be a large number in profit terms which reflects the size now of the company that you now are invested in.

Looking at the dividend, the chairman has mentioned that we raised our dividend by 9.5% for the full year taking us to 11½¢. We instituted the dividend reinvestment plan during the year which we're very pleased with the take-up with over 200,000 investors participating in the dividend reinvestment plan, and it is worth saying that

with our strong underlying earnings and with a strong capital position, our dividend policy is currently under review.

The company is strongly capitalised. As the chairman mentioned, we have a AA Standard & Poor's rating which makes us with the National Australia Bank the highest rated financial institution in this country. We are very conservatively reserved. We invest in high quality and liquid assets and we think about our risk as a company and try to manage the company with a one-chance-in-750-years risk of ruin using historical data, so that's how we think about the risk profile we want to take for the company.

All those are reflected in the share price over the time since we've listed, and I've taken us back to the date we listed in August 2000 and showed you - with the blue line showed you the share price appreciation base against two other indices, one index being the insurance index and the other one being the ASX 200.

Finally for the year in review, we've won a number of awards so I've just listed some of the awards that we've won this year. The Asia Insurance Awards, we were voted the general insurance company of the year in Asia Pacific. We were regarded as the best non-bank financial institution and had the best banking and finance promotion by the Australian Banking and Finance Magazine Awards. We won the equity deal of the year from the CFO magazine. We've improved our rating from a reputation perspective from 43<sup>rd</sup> to 11<sup>th</sup>, and last week we won the Emergency Management Australia's national award as the only company to receive such an award for our insurance help expo in Canberra during the bushfires earlier this year.

Just let me finish now by thinking about the year. Overall I think it was a very pleasing year. We improved the underlying business as well as made a major strategic acquisition and at this point I'd really like to thank our people. Our people

have done a wonderful job. We're a bit like a duck, you see it nice and serenely on top of the water but the feet are paddling very hard underneath and our people are paddling very hard. We've got a lot of things going on in the organisation at the moment. It's not an easy thing to do a major acquisition and at the same time run the business consistently forward as we are, so I'd really take the opportunity to thank them. They're working wonderfully well. I have a great group of people and they're doing a great job on your behalf.

Looking forward, at our full year results recently we set a number of targets for the forthcoming year. We said we want to have an organic growth target of 7 to 9% and we wanted to run the company with a combined ratio of 93 to 96% and we wanted the insurance margin to be between 9 and 12%.

We haven't changed our full year forecast or those targets at all for the full year, but I do need to say that as of today we are currently running ahead of all those targets and that's because we've still got very benign weather. We had forecast the weather patterns would go back to normal. This constant dry weather is reducing the frequency of car accidents which has a beneficial impact on our business, but we think it's non-sustainable so we're not changing our long-term targets but we do need to let the market know that we are performing ahead of all those targets at the current point in time. The other thing that's worthwhile noting is of course the equity markets have been appreciating for the first time since we've listed and that will have a beneficial impact on our after-tax earnings.

Finally, just to give you a feel for where we sit strategically, I think we look at the business and say over the last five years we have been very much trying to acquire our strategic base in Australia and New Zealand, make sure that we have the scale position, make sure we have a position which is sustainable in the Australian and New

Zealand markets and I think we've done that through a series of acquisitions over the last five years.

We now see ourselves in a consolidation phase. As to scale play you have to make sure that you are the low cost provider and that's critical for us to maintain our strategic position. We think we are in that position today but we need to keep moving that business forward to ensure that we're able to consolidate the acquisitions we have. We have 11 insurance licences. We have major IT infrastructure which we're looking to simplify and we're looking to constantly improve our processes to improve our customer service levels. We think this will take a period of time and then once we finish with that and we believe we have a very solid Australian and New Zealand base then we will think about moving offshore, but that is not in the immediate future, it's some way down the track.

So thank you, ladies and gentlemen. I'm very pleased that I'm able to stand here with a pleasing result for you as shareholders and I hope you agree with me that the people in the company that you invest in have done a wonderful job. Thank you.

(APPLAUSE)

**JAMES STRONG**

Thanks very much, Mike. So we go now to the business of the meeting and there are some introductory remarks that I need to make about how we intend to proceed. We have quite a busy schedule here. There are six items of special business that come before you as the shareholders today and those have been set out in the notice of motion. In addition, we've got two items of what we call ordinary business, that's to elect two persons – re-elect two persons to be directors of the board, and then of course the important issue of the receipt and discussion of our financial statements and reports for the year ended 30 June, 2003.

We don't have any other business validly or duly notified to us by shareholders under the provisions of the Corporations Act so that will be the entirety of our agenda. What I propose today is that we'll try a different order of business. The special business will be conducted first and then when we get to the ordinary business in terms of the financial statements and so on there will be an opportunity for people to ask questions in that area as well.

There are different schools of thought as to the best order to follow. Some people advocate that the traditional general discussion on performance first is the best way to go. I think one of the problems that we've had in mind is that that can lead to a lot of duplication and time consumption in terms of there being some issues that are addressed in the general area and then when we come up again under specific items of business they're revisited and particularly things to do with remuneration and so on have been in this category.

Our purpose in following this order today is to try to have a very focused and well structured discussion and deal with the issues in a businesslike way. We have had a little bit of schoolmasterly criticism saying that our purpose of running meetings that way is to try to deny people an opportunity to discuss matters. I don't think anyone who has been to our last two annual general meetings could claim in any way that there's been any intent to deny people an opportunity to speak and I think that's a slightly sensational interpretation.

What we'll do is try this format today and ensure that nobody feels deprived of opportunity to discuss things and we'll review it on the basis of our experience here today. I think the important thing to remember is that all the information you require to make your judgment about how the company is performing is in your hands at the time of coming to the meeting as well.

In accordance with the provisions of the Corporations Act I will ensure that shareholders as a whole have a reasonable opportunity to ask questions about and to make comments on the management of the company and the board and to ask questions of the auditor's representative, who is with us today as well. The procedures for this will be explained when we move to address the ordinary business. I don't think that any of these issues about people being fair and having an opportunity to allow others to speak has been an issue at our last few meetings and I expect a continuation of that rational, orderly behaviour today from you and from our side as well.

Now, motions from the floor, as I mentioned earlier, the only items of business to come before the meeting today will be those specified in the notice of meeting and that's the normal way in which it proceeds. There will not be other business put to the meeting which hasn't been properly notified and processed. Why do we do that? Well, it's because if any matter of substance is to be put before an annual general meeting, proper notice must be given to all shareholders so that they can decide whether to attend or to appoint a proxy and whether they want to say something or not. It would be unfair to those people not present if we considered and voted on things not notified.

In terms of speaking, I'd ask speakers to try to confine their questions to the matters that are relevant to the meeting and to the particular resolutions that we're discussing at any stage in the meeting. As I've mentioned, there is an obligation on me as chairman to give a reasonable opportunity for shareholders as a whole to ask questions and make comments. I don't intend to start out by saying there's fixed time limits and so on, I just rely on the common sense of people in fairness to others to

make their points clearly and succinctly. I'd ask people not to ask great strings of questions at the one time because it makes it harder to reply to them.

In terms of the use of the microphones, I'll give priority to a person who wishes to address the meeting or ask a question for the first time over somebody who has asked questions before, again just in the interests of fairness. Where it's appropriate I'll call on other people to help answer questions where it comes into areas where I just don't have the knowledge or the background and that may be our senior management, other directors, it may be some of our specialist advisers who are here as well. But I ask that all questions be put through me as chairman.

In terms of individual complaints, you can have situations where people are very vexed about an individual dealing that they have with the company and feel very strongly about it, but I think everybody knows that it's not fair to the majority of people, who have gone to a lot of trouble in many cases to get here and used a lot of their time, for us to go on and on about an individual area, so what we do is to have a special desk outside for anyone who wants to raise matters of a personal nature and we can pick them up from there.

So in terms of the use of microphones we have a procedure for making sure that they're available in a fair way in terms of queuing of people and so on, and now just in terms of other items of procedure I'll ask Anne O'Driscoll, the Group Company Secretary, to speak to you.

**ANNE O'DRISCOLL**

Thank you, chairman. As you can see, there are two microphones - number 1, number 2. Anyone wishing to speak should, when advised the floor is open for questions, move to one of the microphones and take their turn in the queue. I remind people that only shareholders, representatives, and proxy holders for absent

shareholders are entitled to speak on the business before the meeting. So when you move to the microphone, please show your admission or voting card to the attendant to establish you're entitled to speak. Please note that if you had appointed a proxy to vote for you at the meeting, but you've now attended in person as well, your proxy's authority to speak and vote for you is suspended while you are present at the meeting. The chairman will take questions from each microphone in rotation. When you are next in the queue the attendant at that microphone will introduce you. I should also mention that today's proceedings are being recorded and being webcast on the company's web site. Thank you, chairman.

**JAMES STRONG**

Thanks very much, Anne. There's more of these procedures we have to go through which I apologise for but it is important to outline these things. I turn now to the question of polls. Polls on all resolutions will be open prior to the discussion of the first resolution which we have before us today and they won't be closed until the end of the meeting. This is to enable shareholders who do not wish to stay for the whole meeting - who have got some other important engagement or reason they have to leave or through boredom - to cast their votes on all items of business so that you can leave the meeting early if you wish to do so. However, I encourage shareholders to stay for the whole of the meeting if they're able to because we hope it's of benefit in terms of improving your knowledge and exercising your democratic rights here. We'll talk to you in a moment about the actual procedure for the polls which I think we should explain very clearly as well.

Shareholders are advised that there will be no formal break during the meeting - we certainly hope it's not so long that we have to - but there are light refreshments provided in the Smith room from 12.00 noon. We'd ask you not to go out and get

provisions and bring them back into the auditorium but whilst you're partaking of it if you do that in the Smith room. Obviously people may need to go to and from the rooms so show your admission and voting card as you come back in, make sure you take that out with you. As you know, the admission voting cards are yellow, red or blue. You've been provided with those when you arrived at the meeting this morning. Now, in terms of further formality, before we move to the special business I'd like to let you know that the minutes of our last annual general meeting, which was held in this same location on 13 November last year, have been approved and I've signed them as chairman of the meeting in accordance with the relevant legislation - section 251A, for those of you who are interested, of the Corporations Act - and the minutes are available for your inspection at the shareholder information desk which is outside in the auditorium. If you're really short of something to read they're available for you to read out there.

Now, we do have to go through the formality of the notice of meeting. The notice convening this meeting has been sent to you as shareholders with the Insurance Australia Group Limited Annual Report and the annual general meeting explanatory notes. In light of the length of the notice of meeting I propose to proceed today on the basis of the notice having been read at the meeting rather than sit here and read right through it which I don't think is a very good use of our time. If anyone has got an objection to that please let me know. Everyone's happy with that? Okay. So I now say that the notice of meeting is taken as read.

One change that we're going to do this year which I think is just a common sense change is that I don't intend to call for proposers and seconders for each resolution which is a little bit of a farce anyway and wastes time. It has been general practice very widespread in general meetings of all sorts but interestingly enough - and this

surprised me - it's not required by law, it was just a practice and it doesn't serve any governance purpose anyway in the context of a large meeting like this, so we just won't bother with that.

I'll now explain the way in which discussions and polls will be conducted before proceeding with the first item of special business as set out in the notice of meeting. The conduct of polls, as I indicated a moment ago, for the convenience of shareholders I will open the polls on all resolutions before this meeting prior to the discussion on resolution number 1. I propose to invite discussion on resolutions 1 to 3, which relate to the DRP and the recent issues of securities in succession, do that as the three of them before directing you to complete your voting papers in relation to those three resolutions at the same time.

I then will invite discussion and completion of voting papers on resolution 4, that's the one that relates to the performance award rights for the CEO. Then we'll go on to the discussion and completion of voting papers on resolutions 5 and 6 and those are amendments to our constitution, of course. Following that we'll go then to the first item of ordinary business and that's discussion on resolutions 7 and 8, re-election of retiring directors. Of course I'm one of those directors who is up for re-election so in your proper interests I'll hand over to Rowan Ross who's agreed to chair the meeting during the discussion of those two items. Then I'll move to the receipt of the company's financial statements and reports and the discussion of this very important issue and any other related business that you want to bring before the meeting.

Polls on all of the resolutions will close at the end of the meeting so they will be open throughout the meeting. I will not ask for a show of hands on each of the resolutions. This is the procedure we've followed in our last two meetings that I've been involved in but on each resolution I'll direct that we move straight to a poll for each resolution.

I believe this is the fairest way to proceed in light of the large number of votes cast by proxy and because those shareholders who are here today statistically are a small group compared to the over 1 million members of the company's register but are obviously here to present their views. As you know, each share contains one vote and so a poll instantaneously reflects the voting entitlements fully throughout the whole company. For the benefit of the returning officer, I now formally direct that the polls be conducted in the manner that I've just described.

Filling out your voting papers, for shareholders who are able to stay for the entire meeting the Group Company Secretary, that's Anne, will give directions as to the completion of voting papers at the conclusion of firstly, resolutions 1 to 3; then we'll do resolution 4 and she'll do another direction; resolutions 5 and 6, another direction on voting; and then finally 7 and 8. So I'd encourage you to stay for the whole meeting and fill out the forms at the times indicated by the group secretary although it's up to your own discretion.

Collection of the papers. Voting on all resolutions will be collected by the returning officer's staff at the conclusion of the discussion. As you know, we have a returning officer to make sure all voting is properly conducted. So as not to hold up the meeting, the collection of voting papers will continue through the discussion on our financial statements and reports. However, once the polls have opened, any shareholders who wish to vote and leave the meeting may drop their voting papers in the collection box which is out at the front door on your way out.

As I consider it's important and appropriate for shareholders to know the state of the proxies on a resolution following the discussion on that particular resolution but before you're asked to complete your voting papers, that's the procedure we'll follow. The returning officer, Mr Will Mrongovius, has given me a written report as to the

results of the proxy voting instructions received for each item of business and I've accepted his recommendations as to the admission and rejection of proxies and made rulings accordingly before the meeting. However, owing to the many permutations which potentially arise from the proxy votes received, and because there may be shareholders in the audience who have changed their previous proxy and are now voting in person, these results are technically preliminary. These preliminary results of the proxies for resolutions 1 to 3 will be displayed on the screen immediately following the discussion of those resolutions so you're aware of them; similarly with resolution 4 then 5 and 6 and later with 7 and 8.

In each case the information will be displayed before shareholders are asked to fill out the parts of their voting paper. Once the polls have been closed and the counting completed a report of the results will be announced to the Australian Stock Exchange. The results will be put on our company web site and we'll put them up in the foyer of the city branch, 74-76 King Street in Sydney, and at the company's registered office on Thursday, that's tomorrow.

So having been through that procedure I'd now officially ask that the polls be opened on resolutions 1 to 8 and commence the special business of the meeting. So that takes us to item resolution number 1 which is asking shareholders to approve the dividend reinvestment plan. This is set out in the notice of meeting and it relates to your approval of the DRP, if I can use that acronym. It must be passed by a majority of votes validly cast by shareholders voting in person or by proxy. It is proposed to formally approve the terms of the company's dividend reinvestment plan. This approval if granted will have the effect that any securities issued to shareholders under the DRP in future will not be counted or will be exempt from the 15% limit on new

issues of shares imposed by the ASX rulings, that is, won't be counted if we decide to issue subsequent shares in terms of the 15% limit.

Information about this resolution is set out in the explanatory notes to the notice of meeting and if you don't have those with you there are copies outside at the shareholder information desk. A full copy of the terms of the DRP were distributed to shareholders with their DRP election forms back in January '03 and they similarly are available outside if you don't have them and want to refer to them.

In terms of the board's position, we recommend that shareholders vote in favour of the resolution. I could make more remarks about what we feel about it but I think it's better to allow people to make their comments or ask questions, so does anyone wish to speak to this resolution and make remarks about it? I'm not sure that you have to introduce this fellow. (LAUGHTER) Hello, Jack.

**JACK TILBURN**

Good morning, Mr James Strong, esquire, and all the board, females and males of our IAG Group Limited today. I feel that we all are experiencing what it's like in a Russian submarine or Pauline Hanson in Wacol Women's Prison because I have sat down and listened for one hour and seven minutes and I have to get up otherwise I think I'll be passing on. Joke.

Now, for this resolution 1 it gives me the opportunity to give it blessing and I read my very short, succinct, sweet note. ASX Listing Rule 7.2 allows issues under a dividend reinvestment plan to be exempt from the 15% limit of the total of shares issued in a 12-month period where the plan's terms are approved by shareholders. Well, that's what we're here today to do, approve. It is quite vital and necessary that all shareholders approve this resolution 1 which is in virtual reality proper and correct legal company housekeeping. Thank you, ladies and gentlemen. (APPLAUSE)

**JAMES STRONG**

Thanks for that guidance, Jack. No doubt you'll send us an invoice for the fee on that professional advice in due course. Would anybody else like to - - -

**MR .....**

I'd now like to introduce Steve Schander.

**JAMES STRONG**

Thank you.

**STEVE SCHANDER**

Thank you, chairman. This was a question of the dividend reinvestment plan. Do you have a top-up plan? You know, some companies like the National Bank when you get your dividend reinvestment you can also add some cash money and top up your holding at a certain discount.

**JAMES STRONG**

Okay, that is a good question. The direct answer is no, we don't at the moment. We can certainly take that on board. I know as you mentioned some companies do but no, we don't at the moment. This plan does not allow for that but we will take note of that issue that you raise.

**STEVE SCHANDER**

That's all right, thank you.

**JAMES STRONG**

One issue that I might mention is we've had a few people say to us, "Well, why don't you give us a discount through the DRP?" As you know, from time to time there are schemes that have discounts but I think most people understand that that's usually given where there's a specific objective at that time. The downside of giving a discount is it makes the capital more expensive from the company's point of view so

if there isn't a good reason to do it then you don't do it at that time because it does raise questions of fairness to other shareholders who don't take advantage of that discount. I think that's a fairly straightforward point.

We've also had some people say to us, "Well, how has it gone to date," because as you know, it's in operation and you're now signing off on it. Well, I think the take-up was very strong because this company does have a large retail – in other words, ordinary shareholder – base. We've had more than 210,000 shareholders elect to reinvest in the company through the DRP and participating shareholders represented more than 30% of the shares on issue, so that's quite an interesting figure.

Any other comments that anyone wants to make or it's all straightforward from your point of view? Well, I'll take it that the discussion on this resolution is concluded and we'll go now to resolution 2. Remember we're going to do 1, 2 and 3 together in terms of the voting.

So we now go to special business resolution 2, this is our refresh capacity to issue shares following issues through the DRP, this relates to the DRP again. Resolution 2 is set out in the notice of meeting and as indicated on the screen, relates to refreshing the company's capacity to issue shares following issues through an underwritten DRP. Resolution 2 must be passed by a majority of votes validly cast by shareholders voting in person or by proxy. Resolution 2 is proposed to refresh part of the company's capacity to issue shares under ASX Listing Rule 1 by approving the issues of ordinary shares under the underwritten DRP that occurred in April this year. The underwriting of the DRP was part of the funding plan announced last year when we were acquiring CGU and NZI, you'll recall that, and information about this resolution is set out in the explanatory notes to the notice of meeting that's been sent out to you and they're available as well.

Just in terms of giving you guidance, the board also recommends a vote in favour of this and I now call for speakers on this motion as well. You get some guidance from Jack again.

**JACK TILBURN**

Thank you very much, Mr James Strong and the board of directors. Now for a little bit of sort of electricity going through the meeting because I'm not in great approval and great favour of the present dividend reinvestment plan and that is the calculation of the number of shares that you get, ladies and gentlemen. I'm in it and I'm in many others which I'll just make a brief outline of.

The calculation of the shares, Mr James Strong and the board, I think is flawed, I think it's backward, I think it's regressive, I think it's out of step with present other companies which are doing it without that horrible, bad, residual cash balance. That's my beef here, the residual cash balance is like a dinosaur, it should be got rid of. It must be costing us a lot of money through ASX Perpetual Registrars to maintain and look after all of the 202,000 people and I'm one of them. It must be extra money. I don't think any registrar company is going to do it as a freebie.

Ladies and gentlemen, a couple of – one or two questions then. On the explanatory notes you say on 9 April, 2003 16.2 million shares as per the underwriting arrangements for the company's dividend reinvestment plan were taken up. Well, why is this necessary by the underwriting company? It's not always done, it's a pretty rare device and methodology, so why is that necessary for it to be taken up? Was this privilege, control, grab of 16.2 million shares vital and necessary and was it a fait accompli in the original DRP issued on 6 January, 2003?

I'd like you to answer that, please, Mr James Strong, and then I'd just like to continue on about what I think is a bad, bad way of calculation of the DRP shares with that horrible cash residual balance.

**JAMES STRONG**

Okay, I get the message that you're not – you have a slight problem with that, Jack. On the mechanics of this Anne O'Driscoll of course does all of this detailed area so I'll ask her to make a couple of comments about your first point.

**ANNE O'DRISCOLL**

Thank you, Mr Chairman. In respect of the first question, Mr Tilburn, the cash balance, for those who are not familiar with it, is essentially if you're getting shares at \$4 each out of the dividend reinvestment plan but the quantum of your dividend is \$13, well, obviously there's something left over. We can't issue part shares so you get left with a cash balance. Yes, there is an administrative cost to maintaining that cash balance but if we didn't maintain that cash balance we have two options: we take it as a company, which is not very acceptable to our shareholders, or we actually write cheques to people for the amount of a dollar. Now, the cost of writing and issuing cheques to over 200,000 people for sums of less than the share price is huge, so what we do is we carry forward the balance and if you have another leftover amount in the next dividend you'll actually get a full share if it adds up to that amount. So yes, there is a cost to maintaining it but it's there to provide shareholders and make sure if they continue to participate they get it. If shareholders are no longer participating we donate the money to charity, so you know, it's an inevitable part of a DRP. It would be quite amazing to manage to run a DRP at market prices and end up having everyone with no rounding differences.

In respect of the second point, the underwriting of the DRP was arranged prior to 6 January in the sense that it was announced on 18 October as part and parcel of the funding of CGU. So what we were doing was saying we needed to raise some capital, we could raise it from our existing shareholders through the DRP or if the shareholders didn't take up the opportunity to participate in the DRP we wanted to make sure that capital was available and we put underwriting arrangements in place. So it was arranged, it is not an ongoing part of what we do, it's something the directors decide on at the time if they want to raise capital and for instance, in October there was no underwriting of the dividend, in fact we didn't even issue new shares, we actually arranged for shares to be acquired on the market and existing shares were given to shareholders participating in the DRP.

**JACK TILBURN**

Yes, oh, well, Mr James Strong, that's, you know, a sort of a *fait accompli* as I already said but maybe you wanted the extra money. Now, sir, on the calculation of the number of shares, I'm in Origin Energy and we don't have any cash residual balance so I wish you'd look at Origin Energy, I know the chairman McCann very well, told him what to do. Woolworths, you're in Woolworths for better or for worse, so am I, and there's no cash residual balance. You know I got that scrapped five years ago. McPhersons down in Melbourne, wonderful company, there's no cash residual balance, of course I'm in it. Fairfax, they've just started off and what they do, ladies and gentlemen, is you round up or round down or with Fairfax, a little bit of money left over, they keep it, that's all right with me, I didn't bellyache about that. I'm sure that we are going to save a lot of money by not having cash residual balances.

IAG, well, they have cash residual balance so that's not good, it's a flawed system, it's a bad system and I think what would be best, Mr James Strong, is that you

introduce me to Anne O'Driscoll at a proper meeting and we'll sit down and discuss it all because I know there's a cash residual balance of 59¢ from Mr Tilburn, I dislike it and I don't think it's any good at all and to end up, ladies and gentlemen, you couldn't say that the four companies that I'm in - Origin Energy, Woolworths, McPhersons and Fairfax - don't know what they're doing. Those four companies do not have cash residual balances. Thank you very much, ladies and gentlemen. (APPLAUSE)

**JAMES STRONG**

Thanks, Jack. It's probably the Woolworths one, they've got a doubtful chairman there, I think, but - - -

**MS .....**

Yes. (LAUGHTER)

**JAMES STRONG**

That is a point of view and you're entitled to express it. The one thing I'd like you to bear in mind is that IAG is a different company in the sense that we've got a large number of what I'd call private shareholders and I think you have to vary what you do according to the conditions. You know, we like having private shareholders so I think we should do what we believe is right and not forfeit those amounts of money and carry them over and it isn't a backbreaking expense, but anyway, we hear your point of view, Jack. I'm not going to introduce you to Anne because then you wouldn't come and see me and we couldn't have our delightful discussions, Jack.

We have another question?

**STEVE SCHANDER**

Thank you, chairman, Steve Schander again. Anne mentioned giving – donating the money to charities. Who decides which charity and who gets the tax benefit of that donation?

**ANNE O'DRISCOLL**

They have to be – the rules of the plan require that they be registered charities and the amount that goes to each charity from the company on the shareholder's behalf is always less than \$2 per shareholder so there is no tax benefit coming back to the shareholders or the company from it; the benefit is going to the charities directly.

The actual individual charities that are used are subject to board approval, it goes to the directors to approve. Last year in June we made a large donation to one of the charities that we're involved in as a company that we're sponsoring, so charity is aligned to what we're doing as a company and the sponsorship initiatives we have. I believe – I'd have to check for you, Mr Schander, what charity it was. I've actually forgotten and I don't want to – I'm pretty sure who it is but I don't want to name the wrong charity and have it wrong. I can check for you and I'll speak to you afterwards and tell you exactly who it was.

**STEVE SCHANDER**

You said it's always less than \$2.

**ANNE O'DRISCOLL**

The amount per individual shareholder so if there's a cash residual balance in your DRP and you're no longer a shareholder and that money is going in; if the residual balance was – was \$3.80 we'd probably give half to one charity and half to another charity because otherwise again we'd come back to Mr Tilburn's point and we'd incur an awful lot of expense sending individual tax receipts to all the individual shareholders whose residual balances are being donated and basically spend more money sending out the cheques than we would in handing over the money to the charity.

**STEVE SCHANDER**

Thank you.

**JAMES STRONG**

I'd just also offer a comment that in relation to this and the next item rule 7.1, I think, Anne, is the correct rule always governs our ability to issue new capital as well. We think it's a little bit unfortunate but there was some advice sent mainly to professional investors which suggested that the effect of this resolution and the next one would be to give the directors unfettered rights to issue capital as they thought fit. I can assure you that that is not the case. The rules cover how much capital can be issued and this doesn't make any change in that and that's the rule that I just referred to as well.

The other thing is that you might say, well, why do we want to refresh our ability to issue new capital, in this case in relation to the DRP and in the next case generally. It's not because we've got some great new acquisition planned but it is a good idea to have that ability available to you should you need it in the ordinary conduct of the business. Any other comments or questions?

I'll now say that discussion on this resolution is concluded and move to resolution 3. The text of resolution 3 again is set out in the notice of meeting as indicated on the screen. This again relates to refreshing the company's capacity to issue shares following in this case an issue of reset preference shares. This again needs to be passed by a majority of votes validly cast by shareholders in person or by proxy. It's proposed to refresh part of the company's capacity or ability to issue shares under ASX Listing Rule 7.1 by approving the recent issue of reset preference shares - or RPS2s as we call them - that occurred in June this year. Information about the resolution is set out in the explanatory notes. Copies of those were sent to you and are available outside, so I'll again ask if anyone wants to speak to this one as well. I should mention again that the directors recommend in favour of this as well.

So I'll consider that discussion on this resolution is concluded. Yes, we do need to be able to hear to be fair to other people at the meeting.

**MR .....**

Mr Chairman, I'd like to introduce Michael Gregg.

**MICHAEL GREGG**

Mr Chairman and the board, just a simple question: are we notified as in the case of a DRP of the ability for us ordinary shareholders to purchase these preference shares at \$100 a piece?

**JAMES STRONG**

Is the microphone on? Yes, thank you. My understanding is it would just go through the normal process of stock exchange notification. There wouldn't be an individual letter to shareholders go out but there would be general notification through the stock exchange, through the press and so on.

**MICHAEL GREGG**

Would it not be a good idea to notify your shareholders and give them a chance to participate?

**JAMES STRONG**

I think on the experience that we've had people were aware of it and did participate and, you know, it would be costly to do it if we had to do it each time there was an issue of this nature on hand. I mean, we can have a think about it but we – I suppose we didn't direct our attention to that specifically because it seemed as though on the previous issue, the first issue, that people had taken them up and seemed to be aware of it, but we can take it on board.

Okay. Can we then go to the question of voting on these. So I turn next to the preliminary results of the proxy instructions received in relation to each of these

resolutions 1 to 3 in succession before directing the completion of voting papers on those resolutions. On the screen you'll see a summary of those proxy results for each of resolutions 1 to 3, so firstly resolution 1 is up there now. Could we go to resolution 2, and resolution 3. So I invite Anne as the company secretary to give instructions to you regarding the completion of the voting papers on these three resolutions.

**ANNE O'DRISCOLL**

Thank you, Mr Chairman. If you're a voting shareholder, corporate representative or proxy holder, you will have been handed a yellow admission or voting card that contains provision for voting on the eight resolutions being put to the shareholders today. You are reminded that if you had appointed a proxy to vote for you at this meeting but you've now attended in person as well, your proxy's authority to speak and vote for you is suspended while you are present at the meeting.

If you're a proxy holder for an absent member you will also have been handed a yellow proxy voting card like the one shown on the screen. In order to activate the directed proxies assigned to you, you must lodge a voting card. In order to activate your open or undirected proxies you must mark the relevant box next to each resolution to indicate whether you are for, against or abstaining on the resolution.

Then, if you only hold reset preference shares in Insurance Australia Group, you do not have voting rights and you will have been handed a red non-voting shareholder card such as the one shown on the screen. This red card is not a voting card. Finally, if you're not a shareholder and you do not hold a proxy for a shareholder, you will have been handed a blue visitor admission card. Again, this blue card is not a voting card.

Now, if anyone needs any assistance or has any questions, the door ushers and returning officer's staff can assist you with any questions or problems you have. Mr Will Mrongovius of ASX Perpetual Registrars Limited has been appointed as returning officer and he is responsible for ensuring the validity of the voting process as noted earlier by the chairman.

Coming back to the resolutions, shareholders who are present and voting in person, corporate representatives and proxy holders, please now complete your yellow voting papers in respect of resolution 1. If you've filled it in already or if you can finish filling it in we can now move on to resolution 2, same process, so shareholders present and voting in person, corporate representatives and proxy holders, please complete your yellow cards in respect of resolution 2 which is the refreshing of the issues in respect of the dividend reinvestment plan.

Now, please note that shareholders who participated in the April 2003 issues of ordinary shares pursuant to the dividend reinvestment plan or the underwriting arrangements for the DRP and their associates are in accordance with ASX Listing Rules excluded from voting on this resolution. That will be why - some of you may have noticed - there were very different numbers of proxies - valid proxies cast for resolution 1 and 2, that's because resolution 2 a lot of votes were excluded, those people couldn't vote because they participated.

Then moving on to 3, same process, for shareholders who are present and voting in person, corporate representatives and proxy holders, please complete your yellow voting papers in respect of 3. In this case there was also an exclusion under the listing rules, so shareholders who participated in the June 2003 issue of reset preference shares, the RPS2, and their associates are in accordance with the listing rules excluded from voting on this resolution.

Now, while people are continuing to do that we'll actually proceed forward with the meeting but you can, as we said earlier on, lodge your voting papers now, if you have to leave the meeting, on these three resolutions and indeed on all eight of them. But otherwise if you're saying we encourage you to stay and you can complete your voting papers at any time and lodge them with the returning officer at any time during the meeting. Please retain them for the time being, they'll be collected at the end and as I say, if you need to leave early, please drop them in the appropriate boxes to make sure your votes count.

**JAMES STRONG**

Okay, thank you very much, Anne. We now go to resolution 4 which is to approve a grant of performance award rights to the CEO. The text of this resolution is set out in the notice of meeting and is indicated on the screen. This resolution relates to the approval of a possible grant of performance award rights to the CEO. Resolution 4 must be passed by a majority of votes validly cast by shareholders voting in person or by proxy. Resolution 4 is proposed so that shareholders may approve the possible grant of rights under the performance award rights plan, depending on performance in the future, as part of the CEO's remuneration package. Information about this resolution is set out in the explanatory notes to the notice of meeting and a copy of those of course is available outside.

Now, we can adopt different approaches to this. I could make some remarks by way of introducing the item but I think there are people who will want to have their say about this so perhaps we'll move straight to people who want to make comments on this item. I'd also like to say that the directors other than the CEO, who can't take an interest in this matter, recommend that you vote in favour of this. He can't make any recommendation or vote because the resolution relates to him personally, of course.

**MR .....**

Mr Chairman, I'd like to introduce Joe Nagy.

**JOE NAGY**

Mr Chairman, I hope you don't take this as a criticism of Michael Hawker, it's not, but it raises a question and I'll make this by comparison to one of your other responsibilities. If we were doing this for Woolworths I'd have no problem if Michael was the MD there. The problem with this kind of a company is the long-tail situation. The question I'm asking you is this. If we do give him a bonus like this and he can draw it up he has this tail so maybe business that he's brought on board now may come back and – excuse the pun – bite us in the bum. How do you address this with this sort of situation?

**JAMES STRONG**

Okay, it's a very good question and it applies in quite a number of businesses. I agree with your point that you're saying, well, maybe there's more exposure in the insurance industry because of the nature of some of our business and particularly the very phrase that you used, long tail, that some of our business is quite long tail whilst happily still the majority of our business is short tail and we intend to continue that situation.

There is no magic answer to what you're saying except that we as a board consider that one of our most important responsibilities through the help of our actuarial experts is to keep a very very close eye on the provisioning for long-tail experience in insurance. It's a complex matter, as you would know, but because of its complexity and its potential to create problems I think it gets extraordinary attention from the board and I believe that we – the people we have who advise us in this area are really absolute top quality people who have a healthy conservative nature and so what I'm

saying to you in a very frank way is that there is no way other than saying to him, “In 10 or 15 years we’ll give you some money provided things have gone okay,” which you’d realise is impractical, but it’s a very – you know, it’s an intelligent comment and all I can do is to assure you that it fits in with the importance that we place on close actuarial monitoring and stewardship of long-tail commitments and exposure.

**MR .....**

Mr Chairman, I’d like to introduce Michael Perry.

**MICHAEL PERRY**

Thanks, chairman, I’m Michael Perry. I hold proxies in respect of somewhere over 700,000 shares which are owned by members of the Australian Shareholders Association. I want to speak against this motion and in doing so I’m not in any way diminishing or I don’t seek to diminish the creditable performance of Mr Hawker and his team over the past year or so.

ASA certainly supports the principle of an incentive package for the CEO. I make no comment on the quantum of such package, I’m not qualified to do so. However, we do strongly believe that any incentive package needs to be aligned to the interests of the shareholders. To me, this means sharing – the shareholders sharing with the CEO the value which has been created for those shareholders.

Now, I don’t believe that this proposal is so aligned and our concerns relate specifically to the performance hurdle. As the proposed structure has been put together, 50% of the performance rights are triggered immediately the company achieves performance in total shareholder return at the 50<sup>th</sup> percentile of its peer group; in other words, medium performance. Triggering 50% of the performance rights at that point means actually the likelihood of a very large payment – you know, I think we’re looking at several million dollars in all likelihood – for performance in

the middle of the pack. Our belief is that such performance should be compensated by the base salary and not by an additional payment.

We have a further concern that the payment is triggered entirely in respect of relative performance and not actual creation of total shareholder return. This means that theoretically in an extreme case of sustained poor performance by the entire market, we could actually see an incentive payment being made without any creation of shareholder value. Now, I admit that's an extreme case. It's been put to me that that's fairly unlikely, but if it's unlikely I think we should be brave enough and I think it would be a good demonstration to your shareholders to say that if we haven't created shareholder value, irrespective of where we perform in the pack relative to other companies, there will be no incentive payment. We believe that any incentive payment needs to be quite clearly in line with the creation of wealth for your shareholders. It needs to be a reward for superior and not medium performance and a reward for actual wealth created, not simply relative performance vis-à-vis other companies. Thank you, chairman. (APPLAUSE)

**JAMES STRONG**

Thanks, Michael, and I appreciate those comments which have obviously been well thought out. I might use this as the point to make some comments about this as well and hopefully to address some of the issues that you've raised.

I seem to have spent about half of my life over the last two years being involved in interviewing and selecting CEOs or senior management in various roles and the one thing I'd like to say to you as a group is that what that has confirmed to me over and over again is that whilst no large business depends entirely on one person - and it can't just in physical terms - the role of the CEO is really key to any business and I'm

sure you've all seen businesses which have changed markedly according to the CEO appointment.

Now, happily we have with us here today one example of the upward change, quite marked, quite clear, and what I'm saying to you is that a CEO can have a significant influence on a business. A bad CEO can destroy a lot of wealth in a company and because of the gearing of how many shareholders there are you can very quickly be talking about hundreds of millions of dollars or unfortunately, as we've seen both here and overseas, billions of dollars. On the other hand you've seen even the share market – which, as we all know, is not a lottery but sometimes it seems to have interesting reactions to things - go up in anticipation when a CEO has been appointed. Unfortunately this issue is very heightened because there have been really bad examples which we all know about – non-performers and so on – and some of those have been great extravagance which we all regret occurring, particularly in the United States but some here as well.

Is this a case of extravagance? I don't think anybody could seriously say that. In terms of just trying to answer the particular issues that Michael raised, your point would be more valid, Michael, if it wasn't for the fact that we follow a very clear approach in terms of setting the remuneration of the CEO - and indeed other key executives who we think can really influence what's going to happen in our performance.

We've got three elements which you'd be very well aware of, that is, the ordinary salary; then there's a short-term incentive year by year to get good performance year by year; then there's the longer term incentive so that it builds – the strategies followed year by year won't be so short term that they don't build long-term value to the shareholders, which we would all agree is most important.

We have tended - and you can see other companies have - to make more and more in the discretionary area so it depends on your performance short term and long term and the actual fixed salary component has come to represent a very base amount. Whilst you say that if our performance meets the 50<sup>th</sup> percentile, that's in the middle of the rank, I'd like to take a different view and say that that means that this company has performed better than more than half of the companies out there in the premium ratings of those whom we are comparing ourselves with, and so we haven't built the base salary into saying, "Well, you've got to be a good performer to get this." We're saying, "That's what we think the job is basically worth. If you're doing better than more than half of those top companies who we're being compared with, we will start to reward you."

The one thing that I think is unfortunate in a lot of the media coverage about salaries and so on and particularly about shares, whether they be by options or by grants as in this case, is that the media always say what the total possible number of shares is that might be earned and they always say it as though they got it today. Now, I can guarantee that if this meeting passes this resolution today and we are given the authority or the scope over the next three years to grant up to 1½ million of these to Michael, depending on his performance and depending on how many we agree as a board to allot each year, that the newspapers tomorrow will portray this as though Michael has just got 1½ million shares which they will multiply by the share price. Now, if anyone wants to take a bet about that I'd be quite happy to take that bet here now and I think that's unfortunate because it is an absolutely incorrect portrayal.

In terms of just emphasising, how many of these Michael gets will depend on his performance in each of the next three years and you are giving us the scope to do this

today and how we do it then depends on performance and obviously they don't operate until three years afterwards in each progressive stage.

The other remarks that I'd like to make are that we have taken external advice and looked at what other people get. As I said, nobody could claim that this is extravagant. I understand the argument in the general community about, well, don't CEOs get paid a lot of money? Yes, they do and there are extravagant examples but I don't think that this is a case of it.

What happens if you don't pay your key people properly? They go and we see examples of that. Michael is certainly not the sort of man who walks around with a sign on his back that says, "Make me an offer," because he's very committed to what he's doing here and you can see it by the way in which he talks about the business and the people and so on.

But it is our responsibility as a board, I think, to take the best advice we can, to look at what is the marketplace, and to make what we think is a reasonable basis. If we don't pay him or other key people it makes it harder for them in terms of other offers that will be made to them and as I mentioned before, it is an issue for us now. One of the downsides of a company that's performing well is that your competitors get very interested in your management.

So again I say, most of Michael's remuneration is performance based. Of course once we are better than more than half of the other companies, it commences to operate, the scheme, and it depends on how much better we've performed as to whether it goes up anywhere near 100% of those rights being granted.

So I hope that those comments are helpful to you. We consider that we've been very deliberate about this. We obviously want it to be fully disclosed. We need your permission to do it which is the purpose for this resolution before you here today. It's

being done in a way that won't dilute your interests, in other words, not like can sometimes happen from an options point of view, and it is based on performance. If the hurdles are too high the scheme is worthless; if they're too low then there are issues such as Michael raised. So those are the main points that I'd like to make in trying to respond to the points that were raised by Michael. Would anyone else like to speak about this issue?

**MR CHAIRMAN**

Thank you, Mr Chairman, I'd like to introduce Michael Gregg.

**JAMES STRONG**

Thank you.

**MICHAEL GREGG**

Yes, Mr Chairman, again this is no disparagement against the performance of Mr Michael Hawker. However, a few weeks ago I attended an NRMA meeting and I was very disturbed to learn that due to a certain disgraced former chairman, royalties were never paid to the NRMA for the acquired use of their name, NRMA Insurance, NRMA Health, and NRMA Building Society. Now, my opinion is that I think the board should remunerate the NRMA with some of these royalties that I think they're due and I'm only raising this fact at this stage when we approve a 1.5 million option to Mr Hawker. I think before offering these things these responsibilities to your old parent company, your 75-year-old NRMA, should be considered. Thank you.

**JAMES STRONG**

Thanks for that comment but unfortunately it's not correct. As you know or as people should be aware, when the demutualisation did occur there was a major exercise of valuation and fairness in terms of what were called the business relationship agreements that came out of that about how the brand is managed, who manages it,

who owns what and so on. As you probably are aware, there were very large amounts of money settled as a result of that between the two organisations to pay for exactly what you referred to. The major consideration of that was 10% of the total shares in the insurance company were given to the association. Thanks.

**MR .....**

Mr Chairman, I'd like to introduce Jack Tilburn.

**JACK TILBURN**

Thank you very much. Mr James Strong, I got a love message a moment ago that reads, "Surely the proxy vote has already decided matters on this motion or resolution." Well, of course, I mean, the 20 major shareholders own 65% of the stock but they never come along, they're a completely scuttlebutt group of passive individuals, but I'm not here to represent – and never have – any of the 20 major shareholders. I'm here to represent Jack Tilburn and the small shareholders band – group and I've just got a few things, ladies and gentlemen, backing up the previous speaker on the performance hurdles and the need to do very very elaborate and good performance and growth and profit for us and for the company.

On what I would call, Mr James Strong, descriptive corporate governance, I am concerned about the performance awards rights. I have tried to read and understand the explanatory notes. I understand that you're trying to encourage Michael Hawker to do future performance better and better and better and I refer you now to what I was reading, the Australian Investment Managers Association booklet and the Australian Institute of Company Directors booklet on these schemes for the chief executive and other executives and that's a question I'll put to you straightaway before I just lose myself perhaps. I wonder why the other top four executives are not

also bundled in and given a chance to have these performance awards rights which I can't read in the explanatory notes at all.

Now, the guidelines by the Australian Institute of Company - - -

**JAMES STRONG**

Can I just stop you for a moment, as you say, so we don't lose track of that. Yes, they are. The only reason it doesn't come to this is that it requires shareholder approval here because Michael is a director, so therefore the shareholders have to approve it, but we do have schemes at lower levels through the management structure as well.

**JACK TILBURN**

Well, thank you very much, I just think now, thank you very much, James Strong, that it's a pity that it wasn't put as a special footnote because I just couldn't really read that and the other people may not be able to understand either.

It says that "The maximum amount issued to any individual may vary from company to company depending upon its size. The board of directors should be responsible for communicating and justifying the reasonableness of allocations to any one individual. This should appear in the annual report or on the notice paper prior to the AGM."

Now, sir, I know that there's no chairman who's perfect and there is no company that is perfect, we are all imperfect human social animals, but I can't quite understand and read and see where last year we approved 300,000 performance awards rights. Now, my mathematics tells me that there's five times that now, from 300,000, ladies and gentlemen, to 1.5 million performance awards rights and I can't see the detail and comments and data about why there's a five-fold increase for Mr Michael Hawker.

Let me move on, ladies and gentlemen. On page 8 of the explanatory notes there's a statement once or twice about the test date. Now, we've got to understand the commencement date, that's pretty okay, and then there's a base date, that's pretty

okay, but I didn't really see a good definition of the test date as the explanatory notes mention it on page 8. May I just end up then, you can answer that in a moment, James Strong, please, what is the test date.

The issue of 300,000 performance awards rights granted at the 2002 AGM, okay, it went through. Of course the 20 largest shareholders would give a donkey vote for it anyway, so that's why you get 97% of the proxies agreeing with it. Five times increase to me is a tremendous increase, five times, from 300,000 to 1.5 million, I've made that point.

Now, has the CEO Hawker made IAG perform? Has the profit increased, has the growth increased five times since the 2002 AGM? I can answer it, everybody knows in the hall here. No, he hasn't. He has not increased all the data and the statistics and the good old profit performance and growth five times. So the question is, why couldn't he have only got another 300,000 performance awards rights or double it to 600,000 performance awards rights?

Looking at the five-year financial summary, ladies and gentlemen, the key ratios, which Mr Hawker even made a strong, determined, sustainable and significant point about earlier in his address, the key ratio after tax return on ordinary equity was only a low and small 5.1%, that's what he did, that's what he got. In 1999 it was 10.4%. In 2000 it was 11% and in 2001 it was 5.3%. Now, he hasn't got anywhere near 10.4, 11.0 and 5.3. He got only 5.1. So I leave you, ladies and gentlemen, with those queries and questions on the performance awards rights and I'm sure Mr Strong will try to answer some of those things. (APPLAUSE)

**JAMES STRONG**

He'll do his best, Jack, but I've got a serious point I've got to raise with you before I get onto that and I think you've just hurt the feelings of a distinguished group of

people who are institutional investors in this company and contrary to your impression, some of them are here, so I'd urge them to go and see you after this meeting and ask for an apology, Jack. You keep referring to them as donkey voters, that's a terrible thing to say. These are people who are managing very large funds and I'm sure you've hurt their feelings. They're very delicate people whose feelings are very easily hurt.

Now, having dealt with that important matter, I'll try and just cover the points you've raised, Jack. I mean, I do realise that these are difficult issues from the ordinary shareholder's point of view but I hope that people have seen from the general remarks I've made that this has been properly thought out. By the way, I don't want you to think that because I say nice things about Michael that we think he's an angel because a lot of his Rugby mates assure me that that isn't so.

So what I would like to say is that what he got last time, I think, Jack, was set out in the explanatory notes on page - - -

**ANNE O'DRISCOLL**

Annual report.

**JAMES STRONG**

- - - sorry, in the Annual Report, on page 36 of the Annual Report. Now, you've said, "Well, why has it gone from that 300,000, which was notified in the last Annual Report, to 1½ million?" Well, it hasn't. What it's gone to is the potential for us over the next three years to grant up to that amount to him, so it's very important to get that into context. We're not saying to you today, "Here, give him 1½ million of these rights." We're saying, "Give to us the ability over the next three years to grant up to that amount depending on how he performs."

So as you say, “Well, you know, it hasn’t gone up by that percentage,” no, it will be a measure of how it’s gone up when we come to those times in the future and it will be a heavy obligation on us to make sure that we take into account the performance in giving him the opportunity to have those rights awarded to him, and I think that’s quite important. You know, the performance isn’t bad so far, the share price has gone up 80%, we’ll keep the pressure on him and let’s see how we go in the end.

Your comment about the test date, Anne, would you like to comment on that.

**ANNE O’DRISCOLL**

Mr Tilburn, the test date is essentially the date on which we measure the relative performance of IAG’s TSR – total shareholder return – against the TSR of all the other companies in the ASX 100 to work out whether we have indeed reached the 50<sup>th</sup> percentile or some other percentile which actually then determines the number of powers, if any, that will be exercisable which again depends on the number that we’re granted in the first place.

**JAMES STRONG**

Okay. Are there any other questions or comments on this? Think it’s got a fair airing?

**MR .....**

Mr Chairman, it’s Michael Perry from the ASA.

**JAMES STRONG**

Yes, Michael.

**MICHAEL PERRY**

Chairman, if I could – if I might crave your indulgence just to pick up on a point that you made in response to my earlier remarks. We’ve no objection to the performance – or the award of performance rights starting to phase in at the 50<sup>th</sup> percentile. I don’t

disagree with that at all. The point I was seeking to make, and may not have been entirely clear, was the objection is in the huge step from zero at just below the 50<sup>th</sup> percentile to 50% of the total performance rights at the 50<sup>th</sup> percentile.

Now, if you sought to start phasing them in at the 50<sup>th</sup> percentile, and may I perhaps refer to – somebody has already mentioned Woolworths and in fact they have a somewhat similar scheme and that starts to phase in in fact at 60% but on a smoother basis. It's the step in the award of performance rights, the award of this – this large amount at the 50<sup>th</sup> percentile which is a large part of our concern and we'd like you to look at that. Thank you.

**JAMES STRONG**

Well, thanks for clarifying that. (APPLAUSE) Certainly all comments about this are taken on board but as I say, we had done a lot of comparison and locked into this scheme which we think suits the circumstances here but we do note those comments. The other thing, Michael, the point that you make, which is quite a valid point which I didn't respond to, what about absolute comparison as compared to relative comparative performance. Yes, that is an issue. The only two comments I'd like to make about this - I don't think anyone is absolutely right or absolutely wrong about it – the first is if you say, "Well, the market is going down so it's still not good for shareholders," well, you can say, "Well, if people invest then that's part of the risk that they take as to where the market is going and as long as you're doing well relative to that then that's the sort of performance that you're looking at."

The other thing is that I have had experience of schemes that with the right intentions tried to cover off every one of these points so there were absolute hurdles that you had to jump, then there were relative hurdles that you had to jump and it ended up looking like a scheme designed to prevent the management from getting the awards, sort of

only if you pulled off a miracle would you get it, to exaggerate it, so there are those issues as well. But thank you for the constructive comments and the way in which they were delivered.

**MR .....**

Thank you, Mr Chairman. I'd like to introduce Graham Ryan.

**GRAHAM RYAN**

Thank you, Mr Chairman. I'd like to incorporate some of the comments from previous colleagues about this relative barrier. One of the problems, there seem to be some inconsistencies there in that it's based on the final position rather than how you got there. For example, you could get nil by getting 49% but you might have improved from 1 to 49 or you might have also gone from 100 down to 49 and similarly with the 50 you could have gone from 1 to 50 or 100 to 50, et cetera.

So the problem I see is that it's based on the final level rather than how you got there, so what would be the anticipated starting percentile and is there some consideration to incorporating rewards for positive movement rather than negative movement to get to that level?

**JAMES STRONG**

Well, in a way you're sort of picking up Michael's point and taking it further. You can have schemes that start at very low levels of reward at lower levels of relative performance. There is no doubt that there are many ways of doing this and we'd be the first to acknowledge that. We think that what we've designed here, in the light of where our company is and what our plans are in terms of the scope for increasing the wealth of the shareholders, that this scheme is well designed to that situation.

I'm not saying that anybody couldn't argue about any aspect of the structure but we've used our external advisers and assessed what we think is a scheme which will

give the best result, and as I mentioned before, the capital market value of the company, as you would see if you set out to measure TSR at the moment, has already escalated from about \$3.77 billion to \$5 - - -

**ANNE O'DRISCOLL**

7.3.

**JAMES STRONG**

- - - sorry, \$7.3 billion, and that's what I mean, if the scheme is well worked out it's still a very small portion of sharing that wealth with the shareholders over the period, so, you know, we could go on arguing all day about when it should cut in, should it cut in at a fairly high level or come in more gradually, how rapidly should it escalate. They are all very arguable issues. All I put to you is that I think on balance this is a fair scheme which will certainly - for Michael to benefit from this the shareholders are going to benefit very significantly and that surely is the key issue.

**MR .....**

Thank you, Mr Chairman. I'd like to introduce Joe Nagy.

**JOE NAGY**

Mr Chairman, I want to go on record as saying I have no problems signing off on Michael Hawker's salary recommendation that you've made. However, I do want to take this opportunity to correct a comment that you made and again this is no reflection on you or what you've said. However, I want to correct this. The information memorandum here and this again has got very little to do with the topic we're talking about but since you raised it - you commented on it, I do want to use this opportunity to correct you. This information memorandum that went to the members at NRMA clearly states that there was nil consideration for the assignment of trademarks to insurance. I refer you to page 133 if you want to check it out as well

as other documents. There's no value there at all so your comment that you made that they got 10% of their shares is incorrect. In fact, if you look at that again - - -

**MS .....**

Trademark.

**JOE NAGY**

For the trademarks. In fact, if you go further it makes a comment here that in the USA when they're trying to work out the value of trademarks they use the example of All States Insurance buying a company called CNA and they were charged in addition to paying all those other things, they were charged a royalty fee of 1.5% based on the gross premium revenue. Now, had that happened with IAG, NRMA would have had something around \$200 million in the three years. That's a big number, it's a big number. I just want to correct that, that's all I have to say. Thank you.

(APPLAUSE)

**JAMES STRONG**

I'll ask Anne to make a comment about that.

**ANNE O'DRISCOLL**

Thank you, Mr Nagy. The issue of brands – brand value is separate from trademarks, some of the trademarks, so it was a very complex, the amount of legal fees that were paid to various sets of lawyers and barristers and valuers and tax advisers on the ownership and equity – and in some cases they were different – in the brands, the various brands, so there is the name NRMA. As a company IAG has no right to use that on its own – sorry, in public in selling product. We have rights to use NRMA Insurance - - -

**JAMES STRONG**

Insurance.

**ANNE O'DRISCOLL**

- - - NRMA Financial Services and various other brands. National Roads and Motorists Association has the right to use NRMA Motoring and Services. The marks issue, it's very complex and it really at this stage is a very old debate. What I said earlier on about the 10% and gave the chairman to say was that there was an overall settlement taking into account a whole lot of issues including the rights of National Roads and Motorists Association Limited to appoint the board of NRMA Insurance at that time and a whole range of issues. All we're saying is that they got 10% of the value of this company at the time in compensation for a whole lot of rights, values, access, services and taking into account a whole lot of things, so it was very much an all-encompassing deal that went through a very long and tortuous process with court approval schemes and everything else.

**JOE NAGY**

The only point I'm trying to make to you again is this had nothing to do with the assignment of the trademarks and the comment that was made here earlier was correct, that's all I'm trying to say.

**JAMES STRONG**

Yes, technically your point is correct, yes. Any other discussion on the CEO's performance rights? Okay, so thank you for that discussion and I'll now close discussion on that resolution. So I now turn in accordance with the order we've been following to the preliminary results of the proxy instructions received in relation to resolution 4. Please see on the screen a summary of those results. So I'll invite the company secretary to give instructions to the shareholders regarding the completion of voting papers on this resolution.

**ANNE O'DRISCOLL**

Okay, as previously, same process, shareholders who are present and voting in person, corporate representatives and proxy holders, please complete your yellow voting papers in respect of resolution 4. Please note that the CEO and any shareholder who is an associate of the CEO are excluded from voting on this resolution by the ASX Listing Rules, as previously indicated by the chairman, and again, please retain your voting papers for the time being unless you're leaving. If you're staying your voting papers will be collected towards the end of the meeting. Thank you.

**JAMES STRONG**

Thanks, Anne. Let's go now to resolutions 5 and 6 which are changes to the constitution. The text of resolutions 5 and 6 is set out again in your notice of meeting and that's indicated on the screen at the moment. These relate to, I suppose we could say technical changes to the constitution, principally to keep it up to date for regulatory changes in the case of resolution 5 and in the case of resolution 6 to adopt new preference share terms.

Resolutions 5 and 6 are special resolutions and must each separately be passed by 75% majority of votes validly cast by shareholders in person or proxy. That's because it's a change to our constitution, obviously. For the convenience of shareholders I propose that discussion on these two resolutions be conducted at the same time. However, please note they are separate resolutions and we need to consider them and vote separately.

Resolution 5 is proposed as a special resolution to approve amendments to the constitution of the company in order to accommodate recent legislative and ASX Listing Rule changes and to facilitate the use of electronic communications, the transfer of shares listed on foreign stock exchanges, and the issue of various types of preference shares, amongst other things.

Resolution 6 is proposed as a special resolution to approve amendments to the constitution of the company, give directors greater flexibility to issue different forms of preference shares. The preference shares could have any combination of the rights specified in schedule 1 to the constitution, which is annexure A to the explanatory notes which I'm sure you're riveted in reading, to the extent determined by directors under terms of issue of the preference shares and permitted by the Corporations Act and the ASX Listing Rules.

Information on these two resolutions once again is set out in the explanatory notes to the notice of meeting and they're available outside as well. In considering these resolutions it's important to note that the resolutions have no effect, as I mentioned earlier, on the capacity of the company to dilute the interests of holders of ordinary shares. This is where there was some misleading comment. That capacity is set out by ASX Listing Rule 7.1 to which we've referred earlier when we were talking about resolutions 1 to 3. Resolutions 5 and 6 refer only to the forms of capital that may be issued. In addition, the company already has power to issue preference shares pursuant to special resolutions passed at the time of demutualisation. These amendments are instead focused on reflecting those powers within the constitution and providing greater flexibility as to the terms of the preference shares that can be issued. We as a board recommend that you vote in favour of those.

Does anyone wish to speak to these resolutions? These are very technical provisions, I acknowledge, so I'll take that as an indication that nobody is riveted in – yes, one.

**MICHAEL GREGG**

Michael Gregg. Just adding to my comment I made further about notification, I think the resolutions should contain a notification to shareholders maybe on request by a shareholder.

**JAMES STRONG**

I'll ask Anne to comment on that.

**ANNE O'DRISCOLL**

Sorry, Mr Gregg, at all times if shareholders request a copy of prospectuses or anything like that they're always made available to them, that's just standard practice, so when we announce on the stock exchange that we're making an issue, for instance, of reset preference shares, the documentation and the announcement always refer to anyone who wants a copy being able to contact the company to get one.

**JAMES STRONG**

Okay, but we understand your point of making sure that people have every opportunity to take up, whether it's preference shares or reset preference shares or whatever. Okay. So I consider that discussion on these resolutions concluded and turn to the preliminary results of the proxy instructions in relation to these two. They're on the screen for resolution 5 at the moment and could we have resolution 6. So I'll now get the company secretary to give instructions regarding your own voting papers.

**ANNE O'DRISCOLL**

As it's only about five minutes or three minutes since I gave you the last one I'm sure you're all familiar with the process but we will go through resolutions 5 and 6, so shareholders who are present and voting in person, corporate representatives and proxy holders, please complete your yellow voting papers in respect of resolution 5 which is the change to the constitution and then move on to the yellow voting cards, same voting cards in respect of resolution 6 which is the appendix on the preference share terms. So we'll now pause to allow you brief time to complete those voting cards.

**JAMES STRONG**

I think most people have completed them so we'll get on, we realise that it's getting into the time of the day so thanks for that, Anne. That concludes the items of special business before the meeting today and I propose to proceed with the items of ordinary business, that is, the election of two persons to the officer of director of the company and the receipt and discussion of the company's financial statements and any associated issues. As I mentioned to you earlier, I need to symbolically vacate the chair for this next item because I'm one of the people up for re-election. Can I hand over to Rowan Ross, thank you, Rowan.

**ROWAN ROSS**

Thanks, James. There are two candidates standing for two board positions. By now you will have had an opportunity to read the explanatory notes that accompanied the notice of meeting. Those explanatory notes give a brief description of the two candidates who offer themselves for re-election. While no other person has been nominated for election as a director, the two candidates must still receive more votes in favour than against from those shareholders voting in person, by corporate representative or by proxy in order to be re-elected.

Resolution 7 is that Mr Neil Hamilton be re-elected as a director. The text of resolution 7 is set out in the notice of meeting and is displayed on the screen. Before inviting Mr Hamilton to speak I'll take the opportunity to note that in preparing for this meeting some shareholders commented that Mr Hamilton did not attend five meetings during the financial year. This should not be taken as a lack of sufficient time or interest by Mr Hamilton. Rather it is reflective of the large number of meetings held during the year relating to the acquisition of CGU and NZI. Mr Hamilton missed no regular scheduled board meetings or board subcommittees of

which he was a member. The meetings he was unable to attend were primarily information updates on the proposed acquisition and its funding. I now invite Neil Hamilton to address the meeting.

**NEIL HAMILTON**

Thank you, Rowan, and thank you, ladies and gentlemen, for the opportunity of speaking to you about the reasons behind my seeking re-election as a director of IAG. I've enjoyed my time and I've very much enjoyed the challenges of being a director of this company over the last several years. It has been a period, as Mike Hawker stated earlier, of very significant strategic positioning by the company. Indeed, I joined the board through the first of these strategic expansion decisions through the acquisition by the then NRMA Insurance of SGIO Insurance in Western Australia. Today, as Mike said and James has said to you, IAG sits as the largest general insurer in Australia and New Zealand and the diversification by geography, product line and distribution channel is largely complete.

However, from a personal point of view I believe that the challenge for the company still remains to extract the full benefits of the newly gained critical mass. I see that very much as the second stage of or indeed the completion of the job we commenced some years ago when we started to undertake this expansion plan. I am therefore keen to help finish that job. I believe I can make a contribution to the achievement of our goals and I very strongly believe that the proper finishing of that job will see significant benefit to both our customers and to all of us as shareholders in IAG. It's for those reasons that I am asking for your support in my re-election. Thank you.

(APPLAUSE)

**ROWAN ROSS**

Thank you, Neil. Does anyone else wish to speak in relation to this resolution? If there's no further discussion then we'll move to resolution 8 which will come up on the screen, there it is. Resolution 8 is Mr James Strong be re-elected as a director. I'd like to invite Mr Strong to address the meeting.

**JAMES STRONG**

Thanks very much, Mr Chairman. When I joined IAG or as it then was, NRMA Insurance Limited or Nigel, as it was fondly or unfondly known as, a number of my friends asked if I would like a referral to their psychiatrist to help me with the obvious rational difficulties that I was having at the time but being serious, why I got involved in the Insurance Group was that to me it was a very clear case of a good company with a good business and good people within the organisation being damaged by internal difficulties and in-fighting and the resultant public impact of that.

Not only was that bad for the organisation but obviously it was inhibiting getting on with the business as well. So I was invited to join by the board by the then existing directors and I decided to get involved because I wanted to join with them in realising the potential as they were driving towards realising that potential and were very clear about where they wanted to go at that stage themselves as a board.

I've enjoyed the period I've been involved. I feel very fortunate to have been part of being able to recruit somebody of the calibre of Michael Hawker and I enjoyed in that period being very much more involved before Michael arrived with the management. It was great to get to know them then. It is a very high quality management team. I've had a lot of satisfaction from being part of the board when we think that we've done some things which have been of great value. We're not over cocky about where we are because, as you know, every day is another test in any form of business or competition. But I'd like to be able to continue with the job.

All I can do is to say to you that I believe we've got a board here which is very clearly focused on the fundamentals of the business which is proceeding in an orderly way and in a constructive way and it would be a privilege for me to continue to be involved in looking after the interests of shareholders in this group. Thank you very much. (APPLAUSE)

**ROWAN ROSS**

Thank you, James. Is there anyone who would like to speak to the resolution? If not that concludes the discussion on resolution 8. As indicated in the notice of meeting, the directors, Mr Hamilton and Mr Strong, abstaining respectively with respect to resolutions 7 and 8 recommend that you vote in favour of each of the resolutions. I will now display the preliminary results of the proxy instructions for resolution 7 and following that resolution 8. That's resolution 8. I will now invite the Group Company Secretary Anne to give instructions to shareholders regarding the completion of voting papers.

**ANNE O'DRISCOLL**

I think at this stage of the day everyone is aware of the process and please complete your voting cards in respect of resolution 7 and 8. These are the last resolutions on which you're being asked to vote today so while the meeting is continuing we're moving into the ordinary business in terms of discussion of the receipt of the financial statements and we will actually also be organising for the proxies to be collected for people so that we can proceed with taking the final polls but the meeting will of course continue, so please complete your voting papers and Mr Strong will now move back into the chairmanship role. Thank you, Mr Ross.

**JAMES STRONG**

Thanks very much, Rowan. I'm conscious that there's been a lot of material to get through at this meeting and as a result, unless there is any objection the collection of the voting papers will now commence as the resolutions which require shareholders to vote have been addressed. This will take place while we move on to the next very important item of ordinary business and that is the receipt and discussion of the company's financial statements and reports and usually we invite discussion on general issues. I'll ask Anne again as Group Company Secretary to explain the procedure for collection of the voting papers just so we get that formality out of the way before we get onto that general business.

**ANNE O'DRISCOLL**

As you can see, the returning officer's staff are now circulating and collecting those voting papers. Please hand your voting papers to them and please take care to check you've completed all the relevant parts of your voting papers before putting them in the boxes. The polls won't close until the end of the meeting so if you need a little bit more time please indicate that to the returning officer's staff. However, to be effective please remember your voting papers must be placed in a collection box before the close of the polls at the end of the meeting.

**JAMES STRONG**

Thanks, Anne. Insurance Australia Group's financial statements for the year ended 30 June, the directors' statement and report and the auditor's report on the financial statements are before the meeting. A copy of these was published in the Annual Report and it's been sent to shareholders. The purpose of this item on the agenda is to provide an opportunity for shareholders to ask questions and make comments about the company's performance, our prospects, our operating capability and our management although there's been opportunity for that earlier as well.

The company's auditor is KPMG and of course they're represented here today. Dr Andries Terblanché is with us in the third row. Andries, would you mind standing so that shareholders are aware, and he is able to respond to questions relevant to the conduct of the audit of the company's financial statements which he does with quite considerable vigour and energy, I can tell you, and the preparation and content of the auditor's report. Does anyone wish to speak to this item of the financial accounts and issues associated with it?

**MR .....**

Thank you, Mr Chairman. I'd like to introduce Joe Nagy.

**JOE NAGY**

Just a very – very few brief questions and again I want to comment that I feel very comfortable about the performance of IAG. Nevertheless, there are a few issues I want to bring up about the financials which I'm sure that you'll see someone there to address them. The first point is, it was made earlier, expense ratios have increased from 19 to 23%. I'm just wondering, since this is a new company and I guess you're still settling in, what would be the ratio that you'd be looking for that we could feel comfortable with. Certainly an increase from 19% to 23% is something that should be addressed, that's my first question.

The second point is – that's on page 32, by the way. On page 38, revenue went up 45% as was mentioned. Underwriting expenses went up 71% so perhaps you could explain that or someone could explain why that's the case. The third one is I think a fairly serious question. Some of you may know that there's going to be a change in accounting rules coming up in about a year or so that's going to affect the issue of goodwill.

**JAMES STRONG**

Yes.

**JOE NAGY**

There is \$1.6 billion of goodwill there. I'm just wondering if worst comes to worst, you have to write that all off in a very short period of time, what impact that will have on your profits and just how you're going to address that to avoid the share price and everything else going down; so those are the three questions.

**JAMES STRONG**

Okay, can we take those three, thank you. What I'll do is start with Michael, I think. I'll ask him to address your question of the expense ratio going up.

**MICHAEL HAWKER**

Yes, thank you very much, chairman. Just the expense ratio, it's worthwhile saying that a direct sold insurance company has a different set of representations of how it looks at the expenses and its loss ratio because we don't pay commissions to third parties to distribute the product for us. When we bought CGU the majority of its business was sold through third parties so there was commission paid, so the economics of the businesses are different so that in a third party sold insurance company you'll find that you have a higher expense base which represents the admin ratio or the overhead of the company plus the commission paid and you probably have a lower loss ratio because you are charging a slightly higher premium to reflect the incremental cost of being distributed through a third party, so a higher premium coming in on the same risk produces a lower loss ratio. When you put the two together you get roughly the same combined ratio for the two businesses.

So what you're seeing is the company being primarily a direct sold insurance company before the purchase of CGU and NZI where we'd been working on driving our expense ratio down which was primarily just an admin ratio and we would think,

to give you some indication of where we'd like to get it to, it's sitting for the company now in mid-18 percentage points. We think that world's best practice is really if you can get it down to round about 17%. The reason for that is that you can look at some of the direct players overseas where they've got it down to about 15% but our numbers are grossed up by the collection of fire services levy which distorts some of our numbers on a like-for-like basis and they represent about 2 to 2.3 percentage points in our expense ratio, just the collation of the fire services levy on behalf of the government.

So what you're seeing therefore is the transition of our accounts to bring in CGU. We've only got a half-year impact and what he tried to split on one of the graphs I showed you, the impact of the commission on that expense ratio and this full year, when we have a full year impact, it will be higher again because we'll see the full year impact of the commission ratios impacting on business. Obviously that's driven by the market in terms of the commission ratios prescribed by the power of the third party intermediaries who interface with our customer base.

That I think you'll find will flow through in terms of the changing nature of the second question you asked in terms of the - - -

**JAMES STRONG**

Underwriting.

**MICHAEL HAWKER**

- - - underwriting expense. It's the same issue rolling through the accounts on that same basis.

**JAMES STRONG**

Do you want to do the goodwill or we get George to do the goodwill?

**MICHAEL HAWKER**

I can deal with the goodwill and I'll get a more competent person to explain it if I'm unable to explain it effectively but from our point of view it's required when you purchase a company, the present accounting requirements are to amortise it over a period of time and we are doing that over a 20-year period of time. It reflects essentially the value of the business we've bought at any point in time. We've improved the value of the business that we've bought so we believe that there's no issue in terms of the value of that goodwill sitting on the balance sheet today and we've now started to essentially amortise some of that so the actual value sitting on the balance sheet is declining each year as we amortise that portion of goodwill through the accounts.

You rightly point out that with the change in accounting standards in about another 18 months' time that it will change, that will put it back on the balance sheet as an asset. We will have had about 2½ years of amortisation which will have detracted from that asset value so there will be a buffer in terms of what we've paid in terms of goodwill and what we actually have sitting on the balance sheet.

Secondly, we also in our view have done a lot of work to try and improve that business and we anticipate continuing to do that and as long as we improve the quality of the business then clearly that asset is a true asset as reflected on the balance sheet and should remain as such. It's only if the business were to deteriorate and deteriorate more than what we've amortised that we would start to feel an impact and then only of that amount which we've had to impact.

Finally it's worthwhile saying that we do look at the overall strength of the company by looking at our capital base, by detracting the goodwill from our capital base when we measure it internally in terms of our financial strength and so we don't actually count that value in the balance sheet as part of our capital base when we measure our

performance and it is also from a regulatory point of view deleted from your eligible capital when determining the minimum capital ratio for APRA.

**JAMES STRONG**

We could invite Dr Terblanché. Would you like to make any comment about these future accounting issues and the way in which the group is handling them or approaching them. As I mentioned, Dr Terblanché is our external auditor.

**DR ANDRIES TERBLANCHE**

Thank you, chair. As you know, the future accounting standards come into play from the year 2005 onwards. There is still considerable debate about the insurance aspects and the insurance rules as they're going to develop. What we're seeing internationally is that three countries in particular are opposing quite vigorously the direction that's been set at the moment, those three countries being the US, Germany and Japan, so whilst there's a great deal of certainty in most of the other areas on the future of rules and what they're going to look like, there's still not the same degree of certainty on the insurance side; so we know part of the picture now, we don't know the full picture yet.

For part of the picture this company from what I've seen has taken all the necessary steps to make sure that the proper actions have been taken now in order to be compliant with those standards that will be forthcoming, but there are still some black holes, some uncertainties and we'll have to wait and see how these will unfold.

Thank you, chair.

**JAMES STRONG**

Thanks, Dr Terblanché. Yes.

**MS .....**

I'd like to pick up on a point that was made in your – well, your explanations and the readings that you need to do to prepare. I won the centenary medal for being the heritage officer of the Kings Cross and Woolloomooloo and Darlinghurst.

**JAMES STRONG**

Yes, I read about you in the paper.

**MS .....**

Did you?

**JAMES STRONG**

Yes.

**MS .....**

Oh, well. Well, I feel that one way to stop behaviour that's a little bit unsocial, you go one further than just giving them a centre. You make each and every person contribute to the embellishment of that centre by – with little workshops, making very attractive tiles which of course make the workshop better. I'm also involved with CD photography – digitally enhanced photography.

**JAMES STRONG**

Yes, yes.

**MS .....**

The idea of a stained glass window with the beauty and the history of Woolloomooloo and by that way the centre isn't just a centre to go to be trained there for different activities – sports, encouragement of theatre. That centre is our centre because we've done something in some of our work and where art is your heart is and where your heart is you're going to be a very social person because you appreciate everything including the centre that you are making your own. So I think that will encourage a social attitude.

Also what about good people who for three years have made – or more years have made no claim. I read that one company gave an incentive of premium for a year every now and again, that would encourage a lot of things.

Then I have another idea because we - Australia to avoid terrorist attacks must make itself appear very friendly and one way of making very smart footpaths is sinewy snaky patterns as in Laurence Marques where they have black and white but here in Australia we have our own rainbow serpent which is of course a – well, a spiritual symbol for the Aboriginal people and I must say I'm prejudiced, I've had some very happy experiences with these gentle people.

One time back when I was much younger and a show girl (LAUGHTER) I was sightseeing back in the Athertons and we were not supposed to go more than five miles away from the theatre. Anyhow - - -

**JAMES STRONG**

Yes.

**MS .....**

- - - we were invited by the owner. To cut a long story short, we got bogged in the mud and (indistinct) within three minutes a very good-looking Aboriginal gentleman comes on the scene with an axe and all that. "Oh, you're an angel," we said. "No, no, no, no, I'm a geologist," but he promptly put rocks on the ground, cut a tree and got our station wagon unbogged. We said, "Well, how come you came so quickly?" "Oh," he said, "I felt for you," so the symbol, I feel for you, and then later I had the good fortune to meet his - - -

**JAMES STRONG**

I'm sorry, I'm going to have to cut you off because whilst it's interesting anecdotes we do have to stick to the business of the meeting.

**MS .....**

I'd like to sponsor a type of welcome to every port around Australia with the statement, "I feel for you," then "I love you too," with a lovely sinewy footpath with maybe some empty rocks and sounds and music and all that, a welcoming, to chase away the - - -

**JAMES STRONG**

Thank you, thanks for the discussion, thank you. Thanks for those comments, they're very interesting.

**MS .....**

Here's the card of the centre.

**ANNE O'DRISCOLL**

The gentleman there will - - -

**JAMES STRONG**

The gentleman behind you will take it. Thank you very much for those comments about the community and we take them on board. Can I just ask if there are any issues further to do with the annual accounts and the - - -

**MS .....**

Thank you, Mr Chairman.

**JAMES STRONG**

We have one over here, thank you.

**MS .....**

I'd like to introduce Mr Richard Talbot.

**JAMES STRONG**

Yes, thank you.

**RICHARD TALBOT**

Thank you, Mr Chairman. That was most interesting, I've nearly forgotten what I'm going to say after that but I'll do my best. A couple of years ago at the 2001 AGM the membership, the shareholders, put forward – put forward a requisition which was debated and voted upon regarding directors' retirement benefits and that's the point of my question to you today regarding the accounts. That would have required if it had been carried for the shareholders of the company to decide on any directors' retirement benefit that was going to be paid. That resolution was defeated. I think there were about 130 million votes approximately in favour and there were about 180 million votes against.

With that in mind I would like to ask regarding the recent payment, the discretionary payment to Mr Nicholas Whitlam of a \$637,000 retirement benefit as reported in The Sydney Morning Herald on 2 September. Now, I note that this payment was made notwithstanding that ASIC's special leave application to the High Court has yet to be determined but even if ASIC's appeal is unsuccessful and even if it was legally open to IAG to make the payment, it is my view that many IAG shareholders would have been opposed to the payment and they certainly would have liked to have had a bit of a say in it.

Now, given the company was not legally bound to make it, it was a purely discretionary payment in nature, and as you know, I wrote to you just over a week ago supplying you with five questions regarding this that I would like to ask today so as not to surprise you so you could give me a considered response and if I can now I'd like to read to you those five questions.

**JAMES STRONG**

Yes, and treat them as one group rather than go through them one by one I think, thanks, Richard, so if you'd just go through the whole five of them.

**RICHARD TALBOT**

Thank you. One, did Mr Whitlam offer or was he induced to resign from the board in return for a promise to receive a financial benefit? Second, if yes, did any member of the board who agreed or acquiesced to such an arrangement vote in favour of the payment to Mr Whitlam of the retirement benefit? Third, if no, why did the board feel that the discretionary payment was necessary or in the best interests of the company as a whole? Fourth, was the discretionary payment approved in order to prevent or discontinue legal action being commenced or proceeded with by Mr Whitlam against any board member; and fifth, did any board member who approved the discretionary payment have and/or declare a material personal interest in the resolution approving the payment?

**JAMES STRONG**

Okay, thanks, Richard, for that. (APPLAUSE) What I'll do is try to respond comprehensively to what you've just said. First of all, just going back, as you said, there was a resolution which was put up at the previous annual general meeting, two meetings ago, wasn't it? Was it last meeting.

**ANNE O'DRISCOLL**

Two.

**JAMES STRONG**

2001, that's correct, okay. I just disagree a little bit with the way in which you put the figures, Richard. I'm sure you're entitled to put them in the way which you see most favourable but it was a constitutional amendment so it required 75%. It did not get near half, 50% of the votes, so if I put my spin on it it was comprehensively defeated. It was something that was validly brought up at the time and we obviously took note of the sentiment behind it because as you're well aware, on 1 September this year we

froze that scheme and discontinued its future operation, so that's just by way of historical reference.

Now, in relation to the questions that you ask regarding the previous chairman, I have to say that the comments that I make in response to what you've raised with me have to be made against the background that Mr Whitlam has sued this company in relation to those benefits and that action is still outstanding so therefore you'll appreciate there has to be some nicety about the way in which I express this background.

Mr Whitlam brought those proceedings against the company, not against individual directors. They are against the company, that's one part of the question that you're asking. The claim does relate to a larger amount than the benefit we actually paid out this year. Those proceedings therefore are in technical terms still ongoing and we don't know what's going to happen with them, it's up to Mr Whitlam, but all I can do is to say that the board has resolved to vigorously defend that litigation, just to make that very clear.

On 1 September this year the board advised that it would pay a retirement benefit to Mr Whitlam reflecting his period of service as chairman and as a director of IAG and its related entities. That payment was made in accordance with the non-executive directors' retirement benefits policy and payment was made following, as you referred to, Richard, the decision of the New South Wales Court of Appeal on appeal where Mr Whitlam was found not to have committed any breach of his duties as a director of IAG or of NRMA Motoring Services.

The board in 2001 had said that Mr Whitlam was entitled to participate in the company's non-executive directors' retirement benefits policy and that payment had been delayed into 2003 for two reasons. One was that there was a special general meeting, the one you referred to, requisitioned in 2001 regarding the payment of that

and we spoke about the outcome of that earlier. Second was that we – the board decided not to address the issue or make a decision until the ASIC proceedings, as they were known, were finally decided.

So when we come to the time of the decision this year, the board did decide to pay the benefit after it was clear that the ASIC proceedings so far as they related to this company were over and finished. Although the board was aware, as you've mentioned, there was a further appeal to the High Court relating to issues concerning the 1998 AGM of the Road Services Organisation, those do not relate to or have any impact on IAG or in terms of whether this benefit, this payment should be made.

In terms of going back to the circumstances at the time, as you know, I was not present at that time. I can tell you that my clear understanding is that directors were not even in a position to promise benefits because as a matter of law they couldn't do that, but obviously there would have been conversations at that time where directors would have expressed their understanding of what they might do if Mr Whitlam did step down in terms of the board exercising its discretion for a payment which was authorised by law and in accordance with ordinary practices at that time, unlike now where we've made this change that I mentioned before.

With respect to material personal interest which you raised, no director that voted on the payment of the retirement benefit either declared or as far as I'm aware, had any material personal interest in this matter. So I hope that that covers each of the issues that you raised. Whilst obviously you've got every democratic right, I hope it's the last time at an annual general meeting of shareholders that this matter is relevant to the conduct of the business.

All I can say by way of general comment, Richard, I understand that there's a long and emotional background to this. The board has taken the view of trying to strike a

balance of the best interests and get on with the future, so whilst I respect the basis on which you're raising it we hope we can get on with the business of the board from this point forward. Thanks.

**MR .....**

Thank you, Mr Chairman. I'd like to introduce Noel Sharpe.

**JAMES STRONG**

Thank you.

**NOEL SHARPE**

Thank you, Mr Chairman. Congratulations on changing the board around with no one having been sued at our annual meeting for asking questions (indistinct) Mr Chairman, you may recall I spoke to you after the last annual meeting about proxy votes - - -

**JAMES STRONG**

Yes.

**NOEL SHARPE**

- - - that I couldn't find out what I was doing. The same thing happened this time. They gave you proxy cards (indistinct) and I said (indistinct) and how are they voting and they have to go out and get something out of a printout to do it. I don't think they're automatic which makes it very awkward. Also on the proxy cards you don't have anywhere - if you have various proxies wanting to vote different ways there's nowhere where you can put the numbers into sort of so, you know, 2,000 for, 8,000 against or whatever it might be. The only thing I did get was (indistinct) if I wanted to sort of change, put some for and some against the proxies I had, there's no way of doing that. I think the proxy cards are here. Thank you.

**JAMES STRONG**

Okay, well, I'll just get Anne to comment on the points you've raised to see how slow learners we are or whether there wasn't a solution to what you raise.

**ANNE O'DRISCOLL**

There are over 90,000 individual proxies lodged so there's a lot of cards lodged. You can't change the voting on any direct proxies that have been given to you to vote on somebody's behalf, so the relevance of showing how many you've got and how many you're voting each way is fairly irrelevant. The point about if you're given open proxies, how many of them you vote in a particular way, I think that's just done on the assumption if you've been given an open proxy, somebody expects you to have an opinion either way and not split your vote on how you're going to go yes or no on the same resolution; so it's essentially saying if somebody has asked you – given you the right to speak on their behalf at this meeting, they've done that but if they've chosen how they vote that vote stands. If they haven't chosen how they vote they're trusting you to have your opinion and vote in a particular way and no expectation of split.

**MR .....**

In any case it's still (indistinct) proxy.

**ANNE O'DRISCOLL**

That's – that's the common practice that you're not given the details because it's just – it's quite difficult to do. Yes, you can get it if you need to but most people just accept that they've been given a proxy and understand that that's how they're going to go. I'm glad that the registry were able to make the information available to you but you can imagine with all the people turning up here this morning, we're over 400 people voting on the floor, to get that information out for everybody would have been very complex.

**JAMES STRONG**

I can see that there's still an issue in your mind so we might just have a little chat afterwards as well. Thanks.

**MS .....**

Thank you, Mr Chairman. I'd like to introduce Mr Rod Mackay Simm.

**ROD MACKAY SIMM**

Mr Chairman, I think my remarks are really – and questions are really to Mr Hawker but they do have some relevance to some comments you made. I hark back to the discussion on risk in the business and the risk was outlined by Mr Hawker as being the thing that really drives the strategy of the organisation forward. Mr Chairman, you made a remark that in the past this organisation was troubled by internal and external problems related to the structure of - let's face it - the NRMA.

I'm concerned about the value to this business of the NRMA brand and it was previously mentioned and in fact the value of the goodwill on the books which may relate to that NRMA brand, in particular because I'm worried about the risk that continued spillover from the Road Services Organisation, which jointly uses the NRMA brand, and goodwill or loss of goodwill or toxicity relating to that goodwill through actions of an unrelated entity, other than the fact that they've got a major shareholding, could significantly impact upon the brand itself that this company is using as probably 25%, at least 50% of its business perhaps at the moment and what the future of that toxicity is going to mean to this company and what the directors and the management of the company are doing to address this.

I mean, it is a real problem that I can see that going forward if you continue to use this NRMA brand and if the NRMA itself for all sorts of reasons known to itself does different things and destroys value, they are in fact destroying value to your brand which is an essential part of your business – our business and I'm worried about that,

so I'd like to know what it is that you're doing to counteract this because one of the other things that occurs to me is that in most people's minds in the community there's huge confusion still between who is NRMA Insurance and who is NRMA Road Services and inextricably I think people use that brand and it's linked and it may have been a very cute thing at the beginning to use it to transfer the business and the goodwill and, you know, that's normal business practice, but right now it would seem that in the future going forward it could be a very dangerous situation for this company to be anchored to the fortunes of a brand which you don't control. Thank you. (APPLAUSE)

**JAMES STRONG**

Yes, as you suggest, I think I'll ask Michael to make some comments to begin with.

**MICHAEL HAWKER**

Thank you, Mr Mackay. I think it's a very pertinent point and there's no doubt that we spend a lot of time thinking about the brand values inherent in our corporation and we do own a number of significant brands of which NRMA is one. We do own the trademarks for NRMA Insurance and all the right to the NRMA brand as provider of financial services. We do a huge amount of brand tracking and analyse whether there is any negative impact being imposed upon how our customers perceive or the members of the mutual perceive receiving insurance services from us. We are finding that at the present time there's no impact on how people are buying our services.

In fact we're finding that if you look at just road membership, a member of NRMA Roads Association or an insurance customer by themselves, the relationship is in fact enhanced if they have the combination of both, the road service and insurance, which is of tremendous value to us and I think that we're seeing the majority of the road service members, of which I'm one, differentiating the board issues that the Road

Services Association is having from the general provision of the road service from the vehicles and the men and women that man those on a day-to-day basis.

So actually we find that there is a positive value coming from the linkage with the provision of road services which we are keen to maintain. If at any time we felt though that that situation was changing in a negative sense, then there are a number of things that we potentially could do to try and protect that brand which I don't need to go into at the moment because it's not an issue and I don't want to spend a lot of time on that particular issue.

It's worthwhile also saying there's no goodwill on our balance sheet for NRMA in a financial sense in that we haven't got any but we do obviously have a huge goodwill in the company of equity goodwill sitting in the company for the brands. I'd finally like to say that in measuring the NRMA brand it's still the highest ranking financial services brand in the country in terms of its power.

**ROD MACKAY SIMM**

I do understand that but what my concern is is for the future and I – I admire your optimism; however, there's been a huge backlash, as you'd be aware, from members due to the fact that the NRMA Road Services have in many cases more than doubled their fees to individuals and unfortunately in marketing perception is truth, as you would well know as well, and so therefore if people confuse the two and the confusion is there, it will be seen that this company is the one which is the bad guy and this company is the one that's standing over people and it's this company's business which is going to be affected and I'm a shareholder of this company. I don't give a fig about the other. What I do give a fig about is the profits of this company and if this company's prospects are going to be damaged by toxicity which flows over

from the other company that's my concern and that's my worry, not what's happened in the past.

**MICHAEL HAWKER**

And we'd agree with that but we are monitoring that and we are building market share under the NRMA Insurance brand in New South Wales and in Queensland at the present time, so at the moment we're not seeing a detrimental effect on our business because of that, in fact the opposite.

**ROD MACKAY SIMM**

Thank you.

**JAMES STRONG**

So thanks for that, that is an important issue, I acknowledge, and I hope we've assured you that we – it's something that we've spent a lot of time talking about and monitoring.

**MR .....**

Thank you, Mr Chairman. I'd like to introduce Warren Collins.

**WARREN COLLINS**

My question is related to the previous question actually. It occurred to me that there might have been some prohibition in the deal that was made on NRMA re-entering the insurance business. Is there any embargo on NRMA re-entering the insurance business?

**JAMES STRONG**

Look, I'm not sure that we can answer that in the sort of precision that it really demands to answer and it might be better if we take that question on notice. Anne might just dig out something which is relevant to it because you're asking a question in good faith, we should be very careful about how we answer.

**WARREN COLLINS**

In connection with that too, is there any limitation on this company's use of the name of NRMA?

**JAMES STRONG**

Well, yes, as - - -

**WARREN COLLINS**

Timewise I mean, does it lapse?

**JAMES STRONG**

Sorry?

**WARREN COLLINS**

Timewise does it lapse?

**JAMES STRONG**

Timewise, no, no, there isn't a time limitation, no.

**WARREN COLLINS**

Thank you, that's all.

**JAMES STRONG**

As mentioned earlier, there is a – you know, there's a volume that would choke an elephant dealing with the relationship between the two parties and that's why I've been very careful about the answer that's given to you.

**ANNE O'DRISCOLL**

There are significant restrictions on the ability of the association to trade in insurance. The most specific one is that they can't use the NRMA brand in any way for an insurance operation in this country.

**WARREN COLLINS**

(indistinct)

**JAMES STRONG**

No, no, not the use of that name in connection with an insurance which obviously, you know, there'd be a question of the reasonableness of preventing anybody from doing anything forever sort of thing but certainly in relation to using that same brand name and so on in relation to insurance there is.

**ANNE O'DRISCOLL**

There are some other restrictions, I just need to get the whole legal stuff out and go through it and I don't want to get it in any way wrong, it's really more a question for that company.

**JAMES STRONG**

I think that answers the substantial part of your question, doesn't it? Yes, thanks.  
Next, please.

**MS .....**

Mr Richard Talbot.

**JAMES STRONG**

Yes, thank you.

**RICHARD TALBOT**

Mr Chairman, thank you, just one short question. Can you inform the meeting of the amount of the fee received from NRMA Road Services during the past financial year for the services provided to it under the terms of the business relationship agreement that was entered into at the time of the demutualisation.

**JAMES STRONG**

I'll ask Michael to respond to that.

**MICHAEL HAWKER**

Mr Talbot, I actually don't know the actual number. It's worthwhile saying though it's in line with the terms of the demutualisation pro forma in terms of the services we provide to the Roads Association as part of that split.

**RICHARD TALBOT**

The nearest million would be fine.

**MICHAEL HAWKER**

I don't actually – I don't have all those numbers at the fingertips, I'm afraid.

**JAMES STRONG**

George, you don't have a figure at hand? No. We can provide it to you but it's just that nobody's got it at their fingertips.

**MICHAEL HAWKER**

It's not a material enough number to hit my radar screen.

**RICHARD TALBOT**

It's not a material enough number. Would it be - - -

**JAMES STRONG**

Sure, in terms of the association you'd consider it material but the overall comment I'd like to make is this, Richard. I know that you personally and other people keep raising issues about what used to be free and now has to be paid for but at some stage people have to accept that there was an enormously complex transaction with a lot of accountants and auditors and lawyers who went over who gets this and who gets that and what's paid for this previously and what is paid in the future and then there was a huge lump sum settlement between the two organisations which drew the line off fully across the page and I think it's provocative to keep saying, "Well, we used to get this free and now we have to pay for that," because that was part of a significant settlement between the two organisations.

I know some people don't like the fact that it was demutualised but it's a fact of life and so, you know, I'm not too sure what is the point of this other than to the internal politics of the roads organisation and that's not a matter for this organisation.

**RICHARD TALBOT**

If I may just briefly explain - - -

**JAMES STRONG**

Sure.

**RICHARD TALBOT**

- - - the point of this was whether the road service at the time of demutualisation and even now is getting a fair deal out of the demutualisation and what those 2 million people that voted for the demutualisation were told at the time the road service would get out of this and whether that's being delivered, whether those people are being conned and whether the road service can keep going in the way that they were promised that it could be.

Now, I would think it's a very relevant point to this organisation to ensure that those promises are kept and that people that depend on the road service and need it aren't having to pay more than they should and that you're not taking, you know, out of one pocket and putting it in the other with them. They have every right to have those undertakings upheld and I believe it's incumbent upon this organisation to see that the road service is not impoverished and that members aren't having to pay too much for their road service. (APPLAUSE)

**JAMES STRONG**

Okay. It's valid for you to make those points, Richard, but I can assure you that we obviously do ensure that the financial arrangements are exactly as they were entered into legally between the two parties. My understanding is that even after difficulties

and problems this year the association still had \$480 million left from the settlement between the two organisations. Now, how that's managed in the future is a very important issue, I agree with you, but it's a matter for the association. In relation to what you're asking us, we are satisfied that the charging and the relationship between the two is in accordance with the agreement at that time, which was the substance of your question, so the answer is yes, we are satisfied.

**RICHARD TALBOT**

Will you tell me or will you tell the good people here today, and many of them are both shareholders of IAG and members of the road service, what this organisation is now charging the road service, what it's receiving from the road service for those fees and services, you know, that are provided. It's a simple question. As I said, the nearest million dollars will be fine. I mean, it's a substantial amount of money. I would think it's around \$30 million or so but I have no way of knowing because I can't find it itemised in our accounts and I would have thought a \$30 million or something like that figure, especially when the people, you know, many of the people that are the shareholders of IAG are also members of NRMA, they would be interested.

**JAMES STRONG**

Sure, and the reason why somebody or nobody can just give you a flick of the wrist and tell you is it's not itemised anywhere so you're asking us to give you, you know, an assessment of what it is under various items. George, did you want to add something to that?

**GEORGE VENARDOS**

Yes, if I could. Richard - - -

**JAMES STRONG**

The CFO.

**GEORGE VENARDOS**

Yes, George Venardos is my name, I'm the Chief Financial Officer of the Insurance Group. Yes, your figure of 30 is near enough to my recollection. I think if you look in the association accounts you'll find they have to disclose it but it's not disclosed in here because we're not required to, it doesn't hit any of particular disclosure requirements that we have. The reason that we're hesitating, Richard, is that it's a dynamic relationship and it's changed quite a bit since it first started where the association has been disengaging from us and they've now disengaged for their computers, they're disengaging for their payroll, they're disengaging for funds management, so for me to take a stab at it now is very difficult because the number has changed at least four times that I'm aware of during the course of the year that we're talking about.

**RICHARD TALBOT**

If I can just finally wind up – I'm sorry to take your time – I did have a look through the association's accounts when they were posted on the web site. The figure that I saw was something like about \$27 million. It was called shared services. But, you know, I mean, it's not highlighted in any way there either so everyone is just guessing. It's not in our IAG accounts at all and so we're really - you know, all the members who I say, you know, are common to both companies, a great many of them, are really in the dark as to what the figure really is and that's all I ask, for it to be just sort of, you know, put out there and there should be nothing wrong with people debating it.

**JAMES STRONG**

That figure, as you said, Richard, is in the ballpark as George has mentioned and it's decreasing obviously as services are disengaged, but I go back and say to you that's all in accordance with the agreement. As you say, they are shared services and it's in accordance with that agreement, so I'd urge you to take the matter up with the association which no doubt you will with vigour. Thanks, Richard. Number 1.

**MR .....**

Mr Chairman, introducing Bill Snodgrass.

**JAMES STRONG**

Thank you.

**BILL SNODGRASS**

Mr Chairman, I'm quite amazed that you couldn't answer the last speaker's question about the fee that was paid by the Motoring Association for the services provided by IAG. I asked exactly the same question at the last annual general meeting and I was told \$34 million and I would have expected that the figure had probably risen this year but why knowing that people had an interest in it, as I'd raised the question at the last annual general meeting, why you weren't prepared for such a question at today's meeting, I just can't honestly imagine. It would almost appear as though you're trying to camouflage this fee.

**JAMES STRONG**

Well, can I respond immediately and reject that utterly. Your perspective of life is very different to ours, Mr Snodgrass, which I can understand. The reason why I didn't have a fee at my fingertips is there is not a fee. There are thousands of individual items relating to IT or whatever else it is. There is no fee as such. There is a payment for thousands of individual transactions. We have an expenses base of \$4 billion. In saying that I'm not trying to belittle anything to do with that

relationship which is still an important relationship for us, but the reason that I don't have a figure at my fingertip is there is no fee as such. It depends on the services rendered which are individually billed and individually paid for. So I hope that puts that in better perspective and it's gone down for the very reason that George mentioned and that is that the association is using less of those shared services at its own volition. Yes.

**MS .....**

Mr Chairman, I'd like to introduce Richard Wilkins.

**RICHARD WILKINS**

Thank you very much, chairman. I've just got three bits of subject matter on the accounts. The first one is does the group still write inwards reinsurance and if so just approximately, perhaps say to the nearest 50 or 100 million, what is the claims provision in the group balance sheet? Second question is, a substantial amount of equity protection through options was taken out as at 30 June to protect the position, as I understand it, during the CGU acquisition. What was the entire cost of that option position fully expensed to the '03 year financial year accounts or is there some part of it that's going to be charged to '04? The third question is, the Annual Report refers to a target return on equity of round about 13 to 15%. Could you clarify whether that's sort of in the peak years of the cycle or an average through the cycle. Thank you.

**JAMES STRONG**

Okay. I'll ask Michael to comment on each of the three; the reinsurance one, the cost of that option coverage, and the targeted return.

**MICHAEL HAWKER**

Yes, thanks, Mr Wilkins. On inwards reinsurance we stopped writing any inwards reinsurance business, made a decision to stop writing it in January 2001 and then it takes about a year before - there's business that you have arrangements with which stops being written once you've made that decision so that stopped in January 2002 so that portfolio is in runoff and we've got it heavily reserved and we're actively looking to commute the entire portfolio if we could, if we could find someone to take it.

Just on the second one, the equity protection, we did have what we call a collar position around our equities really to try and protect the downside should the market continue to fall over the period of time we were purchasing CGU primarily but over that period of time to protect the capital base of the company. That was a series of options which were quarterly options going out for about 18 months and in June we essentially - there had been a number run off which we had expensed through last year's P and L and we closed out a number of them. There is still a very small portion of them sitting in our accounts. Whether they cost us anything depends upon where the markets move because it's a - it's a value which moves up and down in the option cost. The ones we have remaining are essentially zero cost in the time that we put them on because they were giving away the upside at equal amount and protecting the downside, so it's according to where the market moves whether these things have value or not which will be a negative or positive value according to market movements, so I can't describe whether they have a cost or not but they're negligible. We updated our sensitivities for our shareholders' funds I think in August and we're about to do another one probably in the next - - -

**ANNE O'DRISCOLL**

In February.

**MICHAEL HAWKER**

- - - in February when we do the half-year results, but we're very close to a linear position around current market levels for movements in equity markets to direct one-on-one P and L according to that sensitivity.

In the third area, return on equity, we fundamentally believe that we need to manage the business on a 13 to 15% return on equity over the cycle and we're talking about it on a normalised basis so we're essentially assuming looking at our underwriting and insurance profit and then implying the long-term return average for the equity market portfolios to give us a return.

Clearly at the present time we've had two or three years of very poor equity market performance so we've performed way under that target on an actual basis and if we have suddenly a very quickly improving equity market then we could perform way above that in return on equity in actual terms, but we're looking at the normalised long-term average in that 13 to 15%.

**RICHARD WILKINS**

Thank you very much. Just to clarify that final point, the return on equity is measured as profit after tax to ordinary shareholders.

**MICHAEL HAWKER**

That's correct.

**RICHARD WILKINS**

So it's after minorities and after preference dividends.

**MICHAEL HAWKER**

After minorities, after goodwill, after tax.

**RICHARD WILKINS**

Thank you very much.

**JAMES STRONG**

Number 1.

**MR .....**

Mr Chairman, introducing Steve Schander.

**STEVE SCHANDER**

Thank you, chairman. Did you or any of the other directors here have any previous association with CGU, that disreputable insurance company CGU, before you took it over?

**JAMES STRONG**

No.

**STEVE SCHANDER**

I'll qualify that. Are you aware of a headline in the Melbourne paper, The Age, on 13 August this year, 2003 and it says, "Insurance Agent CGU Accused"? Well, I'll add to that. About two and a half years ago I had travel insurance through the ANZ Bank with CGU and I had a mishap in New York through no fault of my own and these people - when the hospital credit controller spoke to me I said, "I have travel insurance." He contacted them here in Australia.

**JAMES STRONG**

Can I remind you that we encourage people not to raise individual complaints when it's all of the meeting here? We're very pleased to talk to you after the meeting but it's using up people's time late in the day when we should be talking about the business affairs from the shareholders' - - -

**STEVE SCHANDER**

Yes, business affairs, I'm still - I'm still about \$100,000 out of pocket because I had to pay up in New York, I had to raise my own money.

**JAMES STRONG**

I still invite you to raise that matter outside of the meeting here today.

**STEVE SCHANDER**

Yes, and I been contacted by probably close to a hundred people that have had similar bad experiences with CGU and as you know, the then parent company of CGU was CGNU and they've now changed their name to Aviva - - -

**JAMES STRONG**

Yes, that's true.

**STEVE SCHANDER**

- - - because they had such a bad name and it must have been a relief for CGNU to get rid of CGU.

**JAMES STRONG**

Look, I'm sure that you've got a personal perspective about this and I'm sure that we could talk to you after the meeting about it, but I just ask you to be fair and not to engage the whole meeting in this problem.

**STEVE SCHANDER**

That's why I asked, did you have any connection with CGU before?

**JAMES STRONG**

No.

**STEVE SCHANDER**

No, so I can't blame you.

**JAMES STRONG**

No. Lots of things you can blame me for but not that one.

**STEVE SCHANDER**

Well, I did see (indistinct) who was then the chairman of CGNU in London and he referred me to a Philip Twymon who wrote a letter to me saying that they had paid

some of my costs and I wrote a letter back asking what did you pay - for what did you pay and when did you pay and I sent that letter two years ago and I haven't had a reply yet.

**JAMES STRONG**

Okay, well, can we discuss it afterwards? We are genuinely interested in hearing what you've got to say but not now.

**STEVE SCHANDER**

I'd be delighted to.

**JAMES STRONG**

Okay. Thank you very much. Number 2.

**MS .....**

Mr Chairman, I'd like to introduce Paul Smith.

**PAUL SMITH**

Hi. Yes, I was just interested in reading in the Annual Report it started off with Canberra you paid an insurance claim within three days which was pretty good. I'm just wondering what your benchmarks were for the different – whether you had benchmarks like housing insurance claims you pay in 20 days or car – like an average benchmark and how those benchmarks would affect the bottom line or the accounts and whether there's sort of industry standards of benchmarks of 20 days or I don't know what the figure is because I think it would improve customer satisfaction if they knew what the time period they're expecting, an average there and then they can, you know, increase that satisfaction from the policy holders.

**JAMES STRONG**

Okay. I'll ask Michael to make a comment about that.

**MICHAEL HAWKER**

Thank you, Mr Smith. We endeavour to pay as fast as we can. There are a number of insurance claims that we actually had someone on the phone claiming for a glass recovery where the person who was repairing the glass arrived at the door while they were actually on the phone which we would love to have had as an ad but no one would believe us, so we actually try and do things very quickly.

In the event of a total loss of someone's home what we tend to do is very quickly provide people with out-of-pocket expenses and we're one of the few organisations which is able to move in with the emergency services to see people at their homes and we had assessors out immediately providing people with cheques to be able to find themselves accommodation and buy some clothes and food, so that in three days was the total loss payment into their bank payment at that period of time for the total assessment of loss.

In terms of benchmarks we do set a number of different benchmarks. We don't have a set standard across all our – all our claims because there are vastly different types of claims that we have and very different circumstances. If it's a plain vanilla one we tend to do it as fast as we can and we try and pay that electronically as fast as we can because clearly that is the key driver of customer satisfaction and quite frankly, the reason for our customers to continue to do business with us and I think we have a wonderful claims-paying record in the community.

But there are times when we have something which is more difficult. I'll give you an example. When a car is stolen and it's burnt out there is a statistical likelihood in 50% of cases that it's a fraudulent outcome so we tend to do some investigation on that and what we try and make sure is we don't accuse someone of fraudulent outcome when the other 50% is not guilty, but we do tend to take some more time in investigation and need more information.

So depending on the type of incident, the type of claim there are processes which we need to do to make sure that we are representing as fast as we can, as efficiently we can, meeting our customer demands and at the same time not – the small portion of the population, making sure we're not allowing them to act fraudulently. But I agree with you, the industry at the present time is in the process of putting a code of conduct together which actually is looking at whether we can set a minimum standard for claims' times in generic terms and I think we would applaud that.

**JAMES STRONG**

Thanks for the question. I go back to number 1.

**MR .....**

Introducing Jack Tilburn.

**JAMES STRONG**

Thanks very much.

**JACK TILBURN**

Thank you, Mr James Strong and the directors of this IAG Group Limited. I think this time I'll come in from right field and give a compliment for the Annual Report, to the CEO's report presented on pages 13, 14, 15 and 16. Very good IAG insurance report, Mr Michael Hawker, very factual and widespread, I enjoyed reading it very much. It took one hour. Then comes the review of operations published on pages 17, 18, 19, 20, 21 and 22. These six pages are very favourable, very good coverage and again the details are very well presented. Thank you very much for you and the group who did it all, compliment there and it took another one hour to read it.

Additional compliment, Mr James Strong, to a report in today's Herald about NRMA Insurance looking after the problems of shopping trolleys and your Woolworths is

mentioned. I think you ought to take some blame there. Now I'm coming in from left field.

**JAMES STRONG**

I knew you'd get me somewhere, Jack, but keep going.

**JACK TILBURN**

I'm coming in from left field now like my old mate, Mr Keating - - -

**JAMES STRONG**

We're thinking of padding the trolleys, by the way.

**JACK TILBURN**

- - - Paul Keating, coming in from left field. There is much much justifiable criticism for the very very poor Annual Report, pages 18, 19, 20, 21, 22. I've never seen so much rotten blue ink in my life and blue, please, I ought to know after making a good book, Corporate Terminator, you do not use blue in any publication. It is one of the worst colours in the rainbow to use and the Annual Report is a failure in that regard.

Page 18 at the top - - -

**JAMES STRONG**

Jack, just to interrupt you again, I warned our people who did the Annual Report, you'll get a real spray from Jack about this, so they knew about it before you said it.

**JACK TILBURN**

Well, I'm now caught in 36 industrial companies on the stock exchange, I get 36 annual reports thrown at me including Westpac and Coles Myer and this is terrible, terrible, terrible, so you've got to sack the group, the gang, and you've got to sack the people, the designers, called Design Works Asia Pacific. They're sacked, they're out, they're terminated.

**JAMES STRONG**

Everybody can have a recovery, Jack, so we'll speak to them about it.

**JACK TILBURN**

Thank you. I'm very pleased then that you've already received a prescient message, a sort of extra-terrestrial message that came through the air waves, ether that this is no good at all, it's no bloody good, NBG, terrible. Now, I therefore will leave it with you that in 2004 that blue is out, blue is not an area in which you should tread and go at all. Thank you, Mr James Strong, for that. I'm sure you'll back me up.

Now, sir, just one question, I was reading on page 38 – another half an hour to get through the other half of the pages but I had two and a half hours in a garage so I did my homework. Financial question on page 38, sir, reference corporate and administrative expenses. Would you present a detailed and meaningful answer – I know it's a bit late; it's 1.25pm – on why we had a settlement of the “share-the-future litigation of \$12 million in 2002.”

There is a serious fault here in that there is not a helpful disclosure on details because my mind has got no idea of share-the-future litigation of \$12 million in 2002. Now, it's very relevant, it is on page 38. What is it all about and I do think that you have to have some blameworthiness in not adding an extra couple of details to make our 1 million readers understand it.

**JAMES STRONG**

I'll ask Anne to comment on that, thanks.

**ANNE O'DRISCOLL**

Mr Tilburn, it's a comparative figure because it was, as you say, in 2002. There were extensive disclosures over a number of years. It relates back to the original intention to float the insurance company and indeed, the road service company back in 1994. There was litigation – a series of litigation between the company, individual directors,

the lawyers, et cetera, et cetera, and it went through a long appeal process as these things take and when the final outcome was there it ended up that the company IAG had to pay \$12 million. That was announced to the stock exchange in I believe September 2001 so it's not surprising you don't remember hearing about it because it is a long time ago. It was therefore in the 2002 accounts and it's just – it's just one of the reasons why this year in the 2003 accounts we've had reasons why the expenses went up, we've also had reasons why the expenses went down, so it's actually saying there is no repeat of that expenditure and that's why the reference is there.

**JAMES STRONG**

Number 1 again.

**MR .....**

Mr Chairman, introducing Brian Blacker.

**BRIAN BLACKER**

Mr Chairman, just a couple of observations. I notice today that practically every one of the motions that were put to the meeting, it was what Mr Tilburn referred to as a fait accompli. In other words, the result was well and truly known by the proxies before people at the meeting had any purpose in voting. I was wondering if you could say whether I'm correct in saying that. Also I'd just quickly like to correct Mr Talbot because 2 million people did not vote for the demutualisation. The last point I'd like to make is where we're talking about incentives for executives, in most forms of remuneration to do with sort of sales percentages and things like that, when you get up into the big numbers there's usually a tapering off. In other words the percentage reward gets less as the figure gets bigger and bigger otherwise you reach totally astronomical figures. Thank you.

**JAMES STRONG**

Okay. I'll just try and respond to those, Mr Blacker. In relation to the proxies, they are obviously known to the returning officer as they come in but they're revealed here on the day of the voting. I can understand that people still keep having issues with this but the fundamental is that in any company it's one share, one vote and anybody who is a shareholder is entitled to vote, whether they do by proxy or otherwise is absolutely their election and there is no differentiation between the votes. So the fact that their votes are known through the returning officer or to the returning officer leading up to the AGM is – is just a fact of life. I'm not too sure what you're trying to say about it.

**BRIAN BLACKER**

Well, what I was trying to say (indistinct) here and voting on those motions is a total waste of time because, you know, when you see sort of so many million votes come in by proxies for a motion and the number of people here, admittedly some of them might have a whole lot of proxies that they can vote but nothing like the quantity that's already passed.

**JAMES STRONG**

So what's your solution to that, to take the votes off the other people? I mean, do you see what I'm getting at? It means that that many million – the holders of that many million shares were in favour of the resolution which is the point of having a vote.

**BRIAN BLACKER**

Yes, but also people have given up a great deal of time and effort to get here to this meeting. Same thing happens with NRMA meetings, the meeting itself is pointless from a voting point of view. The matters are already decided and the matters that were – numbers 1, 2 and 3 et cetera, they were decided without any discussion at a

general meeting. The proxies had already decided and the proxies are the big shareholders.

**JAMES STRONG**

Yes, it's called democracy where the voters vote.

**BRIAN BLACKER**

No. I don't think it is called democracy because it's a waste of time. You regard efficiency and good governance and everything like that in your businesses but people have given up their time to come here to discuss things that have already been decided, so it just seems pointless.

**JAMES STRONG**

Well, we're obviously going round in circles. You've stated your point of view. The purpose of this meeting is to enable people to ask questions, to express points of view. Certainly from my point of view in the time I've been involved we've tried to have that as open as possible and to allow somebody such as you express that point of view and I know it can be frustrating if you come along here and you don't like something and several hundred million people have voted for it, but that's how the system works and the only solution along the lines that you're suggesting, it appears to me, is to not count those other votes and so, anyway, we can go round in a circle. You've expressed your point of view which you're entitled to do, but I don't know that we can take it much further.

The main thing is I would be really upset if we were pursuing any sort of strategies to try to deny people an opportunity to say things here and, you know, in that way suppress the way in which the company operates, but I hope that people see that's not the case at all, but thanks for expressing your point of view.

What were the other two questions? Yes, I won't comment about who voted for demutualisation. The one about the incentives for executives, again I don't want to get into a great statistical analysis but it is possible to argue that by the very formula that we've used in the case of Michael's incentives there actually is a tailing off if you compare where it comes in to where it ends, and I agree with you that there shouldn't – in fact there have been a couple of cases of what I would call obscene amounts of money, which I think is what you're getting at, more in America but we had a couple here as well in this country and certainly ours has a very clear ceiling on it which is that up to 1½ million of those rights that we can grant, so there's no opportunity for this thing to run off the end of the scale whatsoever, and I accept your point fully about that.

Number 1, do you have another? No. Number 2? Okay, anybody else bursting to – okay. So I'll take it from that the business of this meeting has now been substantially completed. I'll just go through the formality of reminding you about handing in your voting papers to the returning officer's staff and I now have to issue the formal direction that following the collection of those papers, the voting papers and proxy holders' voting papers which have been lodged be counted now as expeditiously as possible. Owing to the fact we have a very large shareholder base and the number of shareholders who attended today the polls will take a little time to count to ensure that the counting is complete and, more importantly, accurate. So we will publish the results, we'll give them to the Australian Stock Exchange as soon as we've finished, but you can see clearly the trend in those and we'll place them on our web site so people have access to them and we'll put them up at the company's registered office in 74-76 King Street by tomorrow.

Is Will handy to – okay – to ensure that the voting papers have been collected? No one has any voting papers outstanding here? No more. Thanks, Will. So I now give the formal direction that the polls on resolutions 1 to 8 are formally closed. So that brings an end to the formal part of the meeting with the exception of the actual counting of those proxies and the formal announcement of those polls.

Can I just say – I know it's been again a fairly lengthy meeting but that's part of letting people have their say and we did have quite a bit of formal business to do today as well but I'd just like to say to everyone I appreciate the way in which discussion on issues that are not always easy has been approached and thank everyone for respecting the rights of other shareholders. I hope that the message that you get about the way in which this company is operating and the future direction it's going is one that's positive from your point of view and on behalf of the board of directors and the senior management thank you for your interest in the company and look forward to seeing you in the future. Thank you very much.

**oOo**