



Financial results Full-year ended 30 June 2004

Michael Hawker, Chief Executive Officer
George Venardos, Chief Financial Officer

19 August 2004



Insurance Australia Group Limited
ABN 60 090 739 923

Good morning. Welcome to the Insurance Australia Group FY04 results briefing.

Copies of all the materials we are using here this morning are already on our website.

Agenda



- Overview of results and financial position Michael Hawker
- Dividends
- Integration update George Venardos
- Segmental analysis
- Capital and ROE
- Strategic targets & short-term outlook Michael Hawker
- Conclusion & questions



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The presentation will follow our usual format and we should appreciate it if you would keep your questions until the end of the presentation.

The CEO will provide an overview of the results, the financial position and the dividends.

The CFO will then provide the final report on the CGU and NZI integration and some more detail on the results of the business segments.

Finally, before questions, Mike will talk through our updated strategic goals and the short term outlook.

Now I would like to hand over to Mike to begin taking you through the results.

Our operating environment



- Continuing regulatory change
 - FSR implementation
 - Potts and Davis reviews
 - Terrorism insurance pool implemented
 - 39 changes to legislation
 - Draft APRA Stage II reforms
- Outcomes versus business expectations
 - Motor accident frequency under long-term averages
 - Major storms – No 2 in NZ & No 14 in Australia
 - Buoyant equity markets
- Increased competition



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Good morning.

Before addressing the results, I'd like to put them in the context of the operating environment.

Firstly, business, and the insurance industry in particular, continues to experience regulatory change. This presents operational challenges and ongoing costs. In the past year:

- We implemented all the documentary and operational changes and training required to meet our obligations under the FSR (Financial Services Reform) changes;
- We made submissions to reviews such as the Potts Review (on the role of discretionary mutual funds in the provision of insurance) and the Davis Review (on direct offshore foreign insurers);
- The ICA (Insurance Council of Australia) estimates that there were 39 pieces of amended legislation we had to address; and
- We made submissions on, and continue to plan for, the changes that arise out of the proposed APRA Stage II reforms.

It was also an unusual year in some respects. Dry weather continued and motor claims frequency remained below long-term averages. There were two major storms – in Melbourne in December and New Zealand in February – which rank as No.14 and No. 2 in the respective countries in terms of the value of insured losses. Total incurred claims for storms was about \$265m, considerably above our budgeted allowances. Finally, equity market performance exceeded our expectations for the year.

The market also experienced increased competitive activity. In commercial insurance we saw foreign players more actively seeking business in the market. In personal insurance, the local players, including ourselves, have become more active in promoting product features and service.

Highlights of improved performance



- Group Gross Written Premium of \$6.4bn
 - More than double \$2.6bn at listing four years ago
- Insurance margin of 13.5%, up from 12.3% for FY03
 - Exceeding long-term target range of 9–12%
 - Includes 15.2% for 2H04 (11.8% for 1H04)
 - Reflects a confluence of favourable conditions and the Group's underlying operational improvements
- Net profit after tax of \$665m for shareholders
 - Includes a full 12 months of CGU/NZI results
 - Income of shareholders' funds of \$434m pre-tax (compared to a \$120m loss in FY03)
 - Profit on disposal of ClearView - \$61m pre-tax



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The Group's GWP went through the \$6bn mark during the year. At \$6.4bn it is nearly 2^{1/2} times the \$2.643bn reported for FY00 as the company listed or an annual compound growth rate of almost 25%.

The insurance margin of 13.5% for FY04 is up 1.2% from 12.3% for FY03. As noted when we announced the 1H04 results in February, we expected the insurance margin to exceed the Group's long-term target range of 9 – 12% for some time and this prediction has proved true with an insurance margin of 15.2% for 2H04.

This reflects a confluence of favourable conditions and the outcome of a lot of effort in delivering improved operational performance.

The shareholders' net profit after tax of \$665m includes a non-recurring \$57m (\$61m pre-tax) in respect of the sale of the ClearView business in January 2004. Excluding this, the annual underlying profit of \$608m is effectively double that of 1H04 (\$302m), reflecting the operational improvements and sustained very high equity market returns which delivered over \$200m in pre-tax return for the shareholders' funds in each half.

Financial position strong



- Net cash generated from operations exceeded \$1.1bn for FY04
- Reported ROE for ordinary shareholders of 21.1% for FY04
 - Normalised ROE of 15.1% for FY04 (12.9.% for FY03)
- Average ROE for the four years since listing
 - Reported 7.6%
 - Normalised 12.1%
- Very strong capital position
 - Paid \$696m to shareholders in FY04 (dividends and buy-back) and repaid all short-term debt (\$136m)
 - Group MCR multiple of 1.75x at June 2004
- All key insurers have 'AA' (Outlook 'Stable') S&P ratings



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Net cash flow generated from operations was \$1,169m for FY04 – up 41% from the \$825m reported for FY03.

The combination of the very strong insurance margins and a substantial rise in equity market returns enabled the Group to deliver its first double-digit ROE on a reported basis – 21.1%. Restating this to include normalised returns on shareholders' funds, the ROE was 15.1% and this also exceeded the Group's target range of 13 – 15% for return over the cycle. It is worth noting that the Group has not quite reached the position where the average ROE since listing is within the range – it is 12.1%. Shareholders' patience in this regard is appreciated, particularly as the average reported ROE for the same period is still only 7.6%, despite including 21.1% for FY04.

The Group paid \$282m in dividends to IAG shareholders during the financial year, completed a \$414m off-market buy-back of ordinary shares and repaid all its short-term borrowings of \$136m (total outlay of \$832m).

The Group's MCR multiple at balance date was 1.75x and the Australian insurers' multiple remained above 2 times (2.29x). The Group's benchmark is 1.60x and the surplus above this will fund the Group's final dividend of \$223m.

Earlier this year, Standard & Poor's increased the insurer financial strength and counter-party credit ratings of CGU Insurance Limited and Swann Insurance Limited to 'AA', thereby aligning them with the ratings of the other key insurers in the Group. They are currently the highest ratings held by any Australian based financial institution.

Annual dividend increased by 91%



- Increased dividend payout – all fully franked
 - Final dividend 14 cents per share (Final '03: 7.0 cps)
 - Annual dividend per share up 91% to 22 cps
- Full year dividend payout represents 68% of normalised profits
 - At the upper end of policy range of 50 – 70%
- Dividend to be paid on 18 October 2004
 - Record date of 15 September (Ex 9 September)
 - DRP shares to be sourced by on-market purchase of shares (no discount)
 - Pricing period of 10 trading days from 20 September



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The final dividend will be 14 cents per share, which is double the final dividend of 7cps paid for FY03. This brings the annual dividend for FY04 to 22 cps, an increase of 91% on the 11.5 cps paid for FY03.

The full year payout represents 68% of normalised profits (including the ClearView sale) for the year. This is at the upper end of the Group's policy on payout range reflecting the strong capital position and the Board's confidence that the business momentum can sustain growing annual dividends – at a double digit pace for at least two years.

The Group's dividend reinvestment plan ('DRP') will operate for the final dividend. In view of the strong capital position, and consistent with the practice for the last year, the Group will not be issuing fresh shares to meet the DRP. Instead shares will be purchased on-market for the participants. The DRP price will be determined over the 10 ASX trading days commencing 20 September and will not include a discount.

Financial results overview



Financial results/ratios	Full-year ended Jun-03	Half-year ended Dec-03	Half-year ended Jun-04	Full-year ended Jun-04
Net earned premium (A\$m)	\$4,636	\$2,912	\$2,951	\$5,863
Insurance profit (A\$m)	\$571	\$344	\$448	\$792
Shareholders' funds investment income (A\$m)	(\$120)	\$204	\$230	\$434
Profit before income tax & OEI (A\$m)	\$297	\$484	\$668	\$1,152
Reported NPAT (A\$m)	\$153	\$302	\$363	\$665
Net cash flow from operations (A\$m)	\$825	\$694	\$475	\$1,169
Reported ROE % to ordinary shareholders	5.1	18.4	23.4	21.1
Normalised ROE % to ordinary shareholders	12.9	14.5	14.7	15.1
Basic EPS (cents)	8.65	17.07	20.80	37.87
Dividends per ordinary share	11.5	8.0	14.0	22.0
Group insurance ratios				
Loss ratio	72.5%	65.6%	64.6%	65.1%
Expense ratio	23.2%	24.9%	26.2%	25.6%
Administration expense	17.5%	17.1%	18.5%	17.9%
Commission ratio	5.7%	7.8%	7.7%	7.7%
Combined ratio	95.7%	90.5%	90.8%	90.7%
Insurance margin (before tax)	12.3%	11.8%	15.2%	13.5%
Consolidated MCR multiple	1.62x	1.90x	1.75x	1.75x
Australian insurance operations MCR multiple	2.03x	2.21x	2.29x	2.29x
Minimum probability of sufficiency of claims reserves	90%	90%	90%	90%



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Net earned premium was effectively static between 1H04 and 2H04. This largely reflects a combination of growth in volume (risks in force) and sums insured offset by rate reductions in portfolios such as CTP and workers' compensation.

The insurance margin for 2H04 is 15.2% compared with 11.8% for 1H04 reflecting the underlying improvement in the operations.

Investment income on shareholders' funds is \$434m (pre-tax) for the year, and is a turnaround of \$554m from the FY03 loss of \$120m, reflecting the buoyant equity markets.

As noted earlier, the 2H04 profit after tax for shareholders includes the sale of ClearView – excluding this, profit in 2H04 was similar to 1H04 at just over \$300m.

Cash flow is very strong at \$1.2bn for the year. The lower level in 2H04 is essentially due to seasonality. It is also affected by the timing of large events, eg some of the repair work for the Melbourne storms in early December 2003 was still being undertaken and paid for in 2004.

Earnings per share increased by a multiple of over four to 37.87 cps (calculated using the weighted average number of shares on issue)

The Group retains its policy of a minimum probability of sufficiency of 90%.

Growth in business versus premium



- Gross written premium increased 25% on FY03 to \$6,427m
 - FY03 reported \$5,150m
 - Add annualised CGU and NZI GWP (\$1,291m for 2H03)
 - Exclude FY03 health insurance GWP of \$173m
 - Re-based FY03 GWP of \$6,268m
- Underlying growth in GWP is 2.5%
- Risks in force (excluding health) increased 5.2%
 - 2H04 increased 3.3% from December 2003
- Implies average GWP per risk in force has reduced by 2.5%
- Insurance margin increased and average premium reduced – sharing of improved outcomes with customers and shareholders



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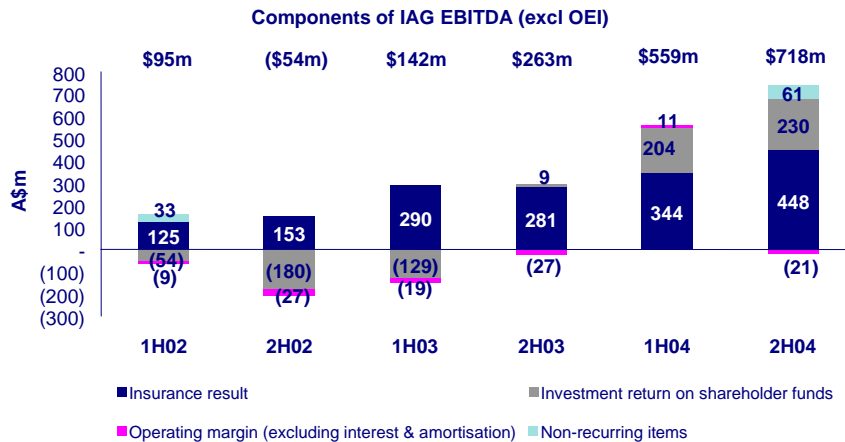
I noted earlier how the business has grown substantially in recent years. When considering the growth in premium in the past year it is important to understand the contributing factors.

Excluding the affect of the acquisition, gross written premium (GWP) has grown by 2.5%. This understates the momentum in the business as the risks in force at 30 June 2004 are 5.2% higher than a year before.

Thus, average written premium per risk in force has actually decreased by 2.5%.

This has been achieved while increasing insurance margins. Costs are reducing as a result of increased efficiency and reduced frequency. Some of the frequency changes are systemic and some are due to improved portfolio mix. These changes reduce risk and premiums per risk and provide increased margins. The benefits are being shared by customers and shareholders.

Contributions to profit before tax



- For the first financial year since listing, the Group's sustained improvement in operating margins was boosted by positive returns on shareholders' funds

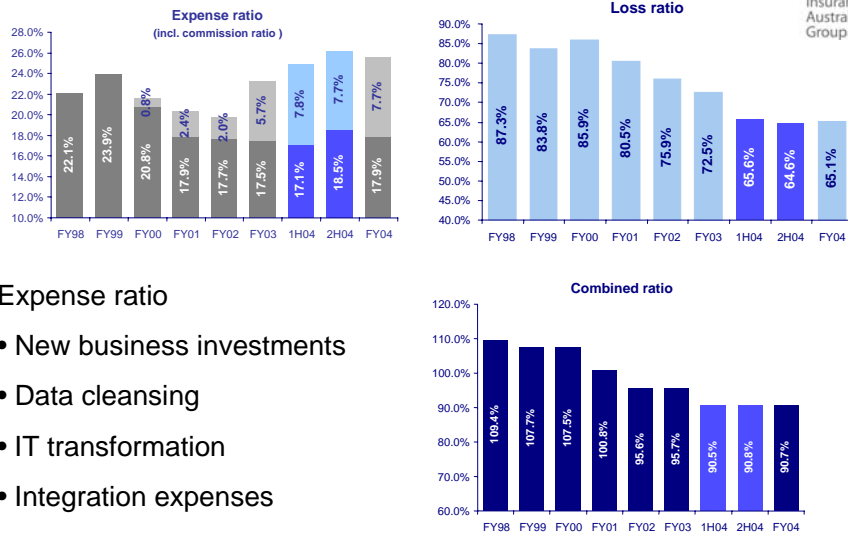


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This slide is a graphic illustration of the growth in the earnings from the insurance operations and the boost received from the reversal of fortune in returns from the equity markets, which drive the return from shareholders' funds.

The figures at the bottom of the bars (and top in 1H04) are net other expenses (eg corporate costs and fee based businesses).

Combined ratio components



Expense ratio

- New business investments
- Data cleansing
- IT transformation
- Integration expenses



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This slide shows the components of the improvement in the combined ratio over 7 years.

The expense ratio now reflects a full year of the CGU and NZI business, with its higher commission ratio.

The administration ratio for 2H04 largely reflects investments made back into the business to increase the Group's capacity and efficiency. On the capacity side, during FY04 we launched:

- The NRMA Insurance business in Tasmania;
- Home warranty insurance in NSW and Victoria;
- Our own marine underwriting business; and
- Travel insurance under the SGIO, SGIC and NRMA Insurance brands.

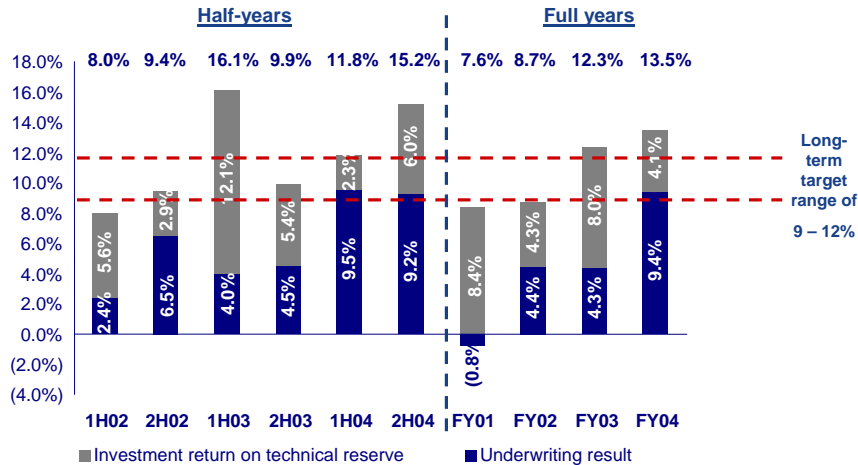
Aside from the work on integration, we have also made significant improvements in the IT infrastructure (both throughout the network and in the opening of our data centre in Melbourne as part of the IT operations in-source) and are investing considerable effort in 'data cleansing' to improve the accuracy of our understanding of our customers' full relationships with us. These investments will yield benefits during FY05.

The Group has now reported underwriting profits for 3 consecutive years and plans to continue to do so.

Insurance margin exceeding long-term target range



Insurance margin (pre-tax)



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This slide shows why looking at the combined ratio in isolation is a very limited way of looking at the results. In periods where discount rates move significantly, the composition of the insurance margin between underwriting profit and technical reserves income also changes.

During FY04, increased discount rates added 2.1% to the blue bar and caused a similar reduction in the grey bar.

What is clear from this chart is that the overall trend in insurance margin is up and that the Group is currently achieving insurance margins which exceed its long-term target range of 9 – 12%.

This is the second full year since listing that this has occurred and reflects the combination of the improved environment for the insurance industry and the Group’s efforts to improve the efficiency of its operations.

Some factors which have helped this – such as the commercial cycle turning and overall drier weather – are expected to ease over time while others – such as the improved efficiency of operations – are more sustainable.

Significant improvement in investment returns



Portfolio income (pre-tax) and incl. derivatives	FY03		1H04		2H04		FY04	
	A\$m	Return (%)	A\$m	Return (%) [*]	A\$m	Return (%) [*]	A\$m	Return (%)
Technical reserves	372	8.0%	67	2.0%	177	5.5%	244	3.8%
Shareholders' funds	(120)	(6.5%)	204	16.8%	230	19.8%	434	19.1%
Total investment income	252	3.1%	271	6.4%	407	9.4%	678	8.1%

^{*} Returns for 1H04 and 2H04 are annualised.

- The technical reserves return of 3.8% includes active return of 68 basis points for the year
- Shareholders' funds returns were boosted by returns of 21.3% and 19.4% from the Australian and international equity markets, respectively
- The overall return of 8.1% includes active return of 96 basis points or approximately \$86m (pre-tax)



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Investment returns continue to be volatile although the volatility in the return on technical reserves is, as noted earlier, largely offset by movements in the claims reserves when changes in discount rates are applied because the Group matches the duration of the technical reserves investments to the expected duration of the claims reserves.

As is well known, the returns from equity markets in FY04 were very high at about 20% and reversed large losses incurred in the previous two years.

The Group's asset managers also added to the market returns with active returns generating about \$86m (pre-tax) or 96 basis points.

Another improved result



- Reported profit of \$665m for shareholders
- Growth in premium rates slowed but out-paced by volume growth
- Operating performance exceeding Group targets supported by
 - The industry environment
 - Lower claims frequency
 - Improved internal performance
- Result boosted by profit on sale of ClearView and very strong equity market returns
- Strong cash flows and financial position
- Increase of 91% in annual dividend – final dividend of 14 cps



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Excluding the effects of the CGU and NZI acquisition, premium growth in the last year has been very modest. The Group is writing more business in terms of the value and number of risks it insures but premiums collected are not growing as fast. This is because the Group has provided rate reductions in classes where savings being generated justify this. As noted earlier, the main examples of this are NSW CTP and WA workers' compensation. In some other classes, such as motor vehicle and parts of liability insurance, average rates have increased at rates lower than CPI. There has also been a softening of commercial property prices in recent months.

As has been widely publicised, the current year has been a good one for the insurance industry generally – after a number of years with very poor returns. While some of this is cyclical (eg investment returns and some of the weather affects), some of it is also considered to be systemic and sustainable. The Australian insurance industry is now led by a Group of experienced players who participate in robust competition, but not at the expense of ensuring that they can generate sufficient returns for the capital markets to continue to support them.

IAG is also working to ensure that its own operational performance improves and investing in future improvements.

The result does include very high returns from equity markets and the one-off benefit of the sale of the ClearView business.

The cash flows and financial position are very strong and the dividend pay-out for the year has been increased by 91% with today's announcement of a 14.0 cps final dividend bringing the annual figure to 22cps.



The slide features a large, stylized graphic of curved, overlapping bands in shades of grey and white, resembling a fan or a stylized 'C'. The text 'CGU & NZI integration' is centered in a bold, blue font. In the top right corner is the IAG Insurance Australia Group logo. At the bottom, a row of logos includes NRMA Insurance, SGIO, SGIC, CGU, Swire Insurance, STATE, and NI. The bottom right corner contains the text 'Insurance Australia Group Limited' and 'ABN 60 090 739 923'.

CGU & NZI integration

IAG
Insurance
Australia
Group

NRMA
INSURANCE

SGIO

SGIC

CGU

SWIRE
INSURANCE

STATE

NI

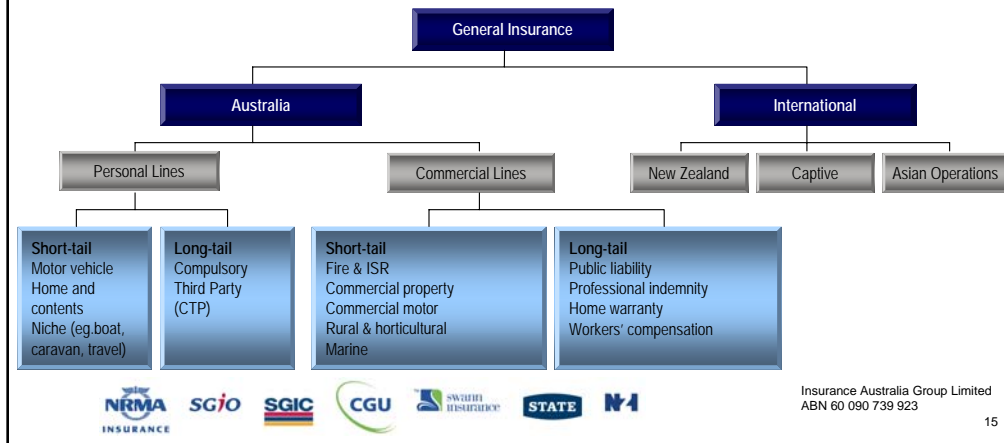
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Hand-over to George Venardos, CFO.

The integrated Group



- Integration programme essentially complete
- Annual pre-tax synergies of \$156m now in run-rate – balance in 1H05
- Integrated operations re-organised to align on customer lines



The Group's integration of CGU and NZI is essentially complete and virtually all the integration benefits committed to at the time of acquisition are now in the run-rate. Before taking you through an update on the programme and the segment results, I thought I should remind you of the new structure we announced on 20 July.

Having worked together for over a year and completed the integration, we have now re-organised the Australian business on a basis that aligns more closely with how our customers look at us. This meant structuring the Australian operations into Personal Lines and Commercial Lines, continuing to be supported by the appropriate centralised support areas. We also used this opportunity to re-align the reporting segments onto the same basis.

On this slide you can see the key products within each business.

Following the update on integration, I will go through the segment results in these new groupings. For reference, we have also provided the results on the superseded segment basis in an appendix in the Investor Report.

Integration programme complete



Synergy realisation schedule	Half-year ended Jun-03	Half-year ended Dec-03	Half-year ended Jun-04	Half-year ended Jun-04	Annual recurring
All amounts are pre-tax (A\$m)	Actual	Actual	Target	Actual	Estimated
Cumulative run-rate per annum					
Personal lines	15	41	80	80	80
Commercial	14	27	27	27	31
IT, shared services & overheads	13	33	33	33	33
Australia sub-total	42	101	140	140	144
International - New Zealand	12	16	20	16	16
Total synergies in run-rate	54	117	160	156	160
Reported income statement					
Synergy benefits collected	9	33	76	37	160
Costs of implementation expensed	(45)	(25)	(25)	(27)	-
Net impact on profit for period	(36)	8	51	10	160

- \$156m of total committed target of \$160m now in the run-rate with balance to be delivered in 1H05
- Benefits collected below target in 2H04 – delays experienced on claims, exacerbated by Melbourne storms – but now emerging



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The Group has delivered \$156m of the targeted \$160m (pre-tax) of annual recurring integration benefits. The remaining benefits are concentrated in a small number of initiatives to be completed during 1H05. Realisation of these outstanding benefits and sustainability of the total programme benefits is now part of 'business as usual' operating responsibilities under the new aligned structure.

Implementation costs are now expected to total \$145m, in line with the original budget.

\$79m of synergy benefits have flowed to the bottom line since the integration programme commenced. This is \$39m below the forecasts published with the FY03 results. The bulk of this difference arises because the original estimates assumed immediate flow to the bottom line of claims-related benefits. In reality, it took longer to deliver the benefits as there was a longer transition period for all claims to be recorded and processed through the new system. This situation was exacerbated by the Melbourne storms in December 2003, which occurred just as the claims were being migrated. A smaller proportion is due to a reduced assumption on how much improved underwriting outcomes can be attributed to the integration.

Essentially, we are only talking about timing as we remain confident there will be no shortfall in the final bottom line impact from the integration.



The new basis on which we are reporting the segments is based on our business model.

This segmentation delivers groupings which are far more diversified and therefore more robust when it comes to assessing goodwill under IFRS (International Financial Reporting Standards).

Australian personal lines



Australian Personal Lines	Full-year ended June-03	Half-year ended Dec-03	Half-year ended June-04	Full-year ended June-04
	A\$m	A\$m	A\$m	A\$m
Gross written premium	3,411	1,920	1,980	3,900
Net premium revenue	3,167	1,783	1,819	3,602
Underwriting profit	124	212	220	432
Insurance profit	403	265	329	594
Insurance ratios				
Loss ratio	74.4%	65.8%	63.4%	64.5%
Expense ratio	21.7%	22.3%	24.5%	23.4%
Administration ratio	17.5%	16.4%	18.6%	17.5%
Commission ratio	4.2%	5.9%	5.9%	5.9%
Combined ratio	96.1%	88.1%	87.9%	87.9%
Insurance margin (before tax)	12.7%	14.9%	18.1%	16.5%

- Focus on customer and claims initiatives has driven volume growth, with risks in-force increasing by 4.8% in FY04
- Stronger margin driven by lower claims frequencies and improved efficiency partially offset by rate reductions



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The Australian personal lines segment employs over 5,500 staff and generated 61% of the Group's GWP for FY04 and 75% of the insurance profit. It contains the core origins of the Group boosted by the personal lines businesses acquired in recent years.

As was noted earlier, comparisons with FY03 are not very relevant in understanding the results due to the CGU acquisition in January 2003.

Overall, the business grew 4.8% when measured in terms of risks in force at June 2004 relative to June 2003, with motor vehicle insurance showing the highest growth. The CTP volumes grew 4.4% over the year to reach a milestone of 2m risks in force in June 2003.

Premium revenue growth has been slower – GWP increased by only 3% in 2H04:

- Most premium rates were flat with CTP rates reduced in February and again in July 2004.
- Average premiums in the large portfolios of NSW and Victorian motor and home insurance increased by less than 1.5% during the same period. This includes the impact of people increasing their sums insured, so the rate increases are even less.

The quality of the current portfolio mix and the savings made from the ongoing improvements in operational efficiency, has driven the improving trend in the short-tail business. Portfolio mix has also been important to the CTP portfolio with continued improvement in the penetration of our comprehensive car insurance customer base.

The other key driver in profitability is the NSW scheme stability and positive signs from the QLD CTP scheme, which are driving ongoing strong results from the CTP portfolio.

The administration expenses in 2H04 include investment in the IT transformation, eg the data centre, and supporting activities such as data cleansing. This work will provide returns in the coming periods.

Reduced premium rates and increased volumes do make it harder to achieve reductions in the administration ratio but the Group continues to strive for this and believes it is well-placed to continue to deliver strong margins from this business.

Australian commercial lines



Australian Commercial Lines	Full-year ended June-03	Half-year ended Dec-03	Half-year ended June-04	Full-year ended June-04
	A\$m	A\$m	A\$m	A\$m
Gross written premium	1,053	768	845	1,613
Net premium revenue	844	689	666	1,355
Underwriting profit	45	63	6	69
Insurance profit	123	66	64	130
Profit from fee based business	6	20	1	21
Total commercial line result	129	86	65	151
Insurance ratios				
Loss ratio	68.9%	61.1%	65.6%	63.4%
Expense ratio	25.7%	29.8%	33.6%	31.6%
Administration ratio	16.6%	18.0%	21.7%	19.8%
Commission ratio	9.1%	11.8%	11.9%	11.8%
Combined ratio	94.6%	90.9%	99.2%	95.0%
Insurance margin (before tax)	14.6%	9.6%	9.6%	9.6%

- Excluding discount rate adjustments, loss ratios in 2H04 and 1H04 were consistent
- Margins remain strong, with short-tail performance more than covering some strengthening in liability reserves



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The Australian commercial lines business employs close to 2,500 staff, generated 25% of the FY04 GWP and 16% of the FY04 insurance profit.

This segment contains the biggest part of the CGU acquisition and, consequently, the FY03 comparatives are even less relevant than in personal lines. However, the story on premium revenue has a similar theme with volume increases (9.1% increase in risks in force for FY04) exceeding premium revenue growth. Commercial property rates have started to fall and liability rates have generally stabilised.

Excluding the discount rate adjustments on claims (\$46m in 1H04, \$15m in 2H04), the loss ratio was 67.9% in both 1H04 and 2H04. The first part of the year bore the Melbourne storms and we increased the long-tail liability reserves in 2H04. This included some asbestos reserving with an increase in the survivor ratio (based on the net provision as a multiple of the average of the last three years' claims paid) increased to 50 times.

The expense ratio increase in 2H04 relative to 1H04 is due to a \$20m increase in the administration expenses. Apart from the impact of volume growth, this period included the final costs on FSR licensing and accreditation of agents and costs incurred on developing the Group's marine and home warranty businesses.

The insurance margin in FY03 is not really comparable due to the CGU acquisition.

Margins in this segment are expected to come under some pressure in FY05 as more of the rate softening currently being experienced in the commercial market is reflected in earned premium. However, as the overall renewal experience at June 2004 was only a very marginal reduction in premium, and the Group is confident that it has written the business at technically adequate rates, the margins should still meet the Group's return targets.

Profits from fee based business was only \$1m in 2H04 compared to \$20m in 1H04. This is due to the timing of the assessment of performance fees in the workers' compensations schemes managed for the various State governments. The annual total of \$21m is in accordance with the Group's expectations.

International performance



International operations	Full-year ended Jun-03	Half-year ended Dec-03	Half-year ended Jun-04	Full-year ended Jun-04
	A\$m	A\$m	A\$m	A\$m
Gross written premium	685	454	460	914
Net premium revenue	623	440	466	906
Underwriting profit	29	2	45	47
Insurance profit	44	13	55	68
Insurance ratios				
Loss ratio	67.9%	71.6%	68.0%	69.7%
Expense ratio	27.4%	28.0%	22.4%	25.1%
Administration ratio	18.4%	18.5%	14.0%	16.2%
Commission ratio	9.0%	9.5%	8.4%	8.9%
Combined ratio	95.3%	99.6%	90.4%	94.8%
Insurance margin (before tax)	7.1%	3.0%	11.8%	7.5%

- The loss ratio improved in spite of record storms in New Zealand
- Delivery of integration benefits assisted in reducing administration costs



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The International insurance result contains the New Zealand business and the Group's captive. The acquisition of NZI effectively doubled the size of the business and introduced mainly commercial business making comparisons with FY03 somewhat futile.

The FY04 gross earned premium remained relatively static between 1H04 and 2H04 with strong growth in personal lines offset by softening in commercial lines rates and volumes ceded to NZI.

As noted at the 1H04 results announcement, the NZ results are seasonally poorer in the first half of the financial year due to winter claims. This was borne out this year despite 2H04 including a \$38m loss from record storms in February 2004, the business reduced its loss ratio to 68% from 71.6%.

The captive had a challenging year wearing \$25m from the 1H04 Australian storms before December and \$45m more in storm claims in 2H04, including \$25m from the New Zealand storm with the balance of \$20m arising from storm aggregate stop loss covers provided to the Australian operations.

The expense ratio also improved as the benefits of integration started to flow.

Capital and ROE



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MCR multiple



Coverage of regulatory capital requirements	IAG Group	Insurance Australia Ltd Group	IAG Group	Insurance Australia Ltd Group
A\$m	31-Dec-03	31-Dec-03	30-Jun-04	30-Jun-04
Tier 1 capital				
Paid-up ordinary shares	3,434	1,286	3,263	1,286
Hybrid equity	539	-	539	-
Reserves	(2)	-	(5)	-
Retained earnings ⁽¹⁾	(183)	2,443	(259)	2,308
Excess technical provisions (net of tax)	371	336	375	326
Less: deductions	(1,745)	(1,403)	(1,663)	(1,158)
	2,414	2,662	2,250	2,762
Tier 2 capital				
Term subordinated notes	618	618	644	644
Capital base	3,032	3,280	2,894	3,406
Minimum capital requirements (MCR)⁽¹⁾:				
Australian general insurance businesses	1,456	1,486	1,475	1,485
International insurance businesses ⁽²⁾	142	-	179	-
Minimum capital requirements	1,598	1,486	1,654	1,485
MCR multiple	1.90x	2.21x	1.75x	2.29x

1) The 31 December 2003 position excludes the capital requirement of the ClearView business as this business was sold in January 2004. The retained earnings position at 31 December 2003 was stated assuming a \$43m profit on sale of the ClearView business.

2) The MCR and Capital base for International insurance businesses is calculated on a similar basis to the Australian regulatory requirements and includes the Captive reinsurance business and the operations in New Zealand.



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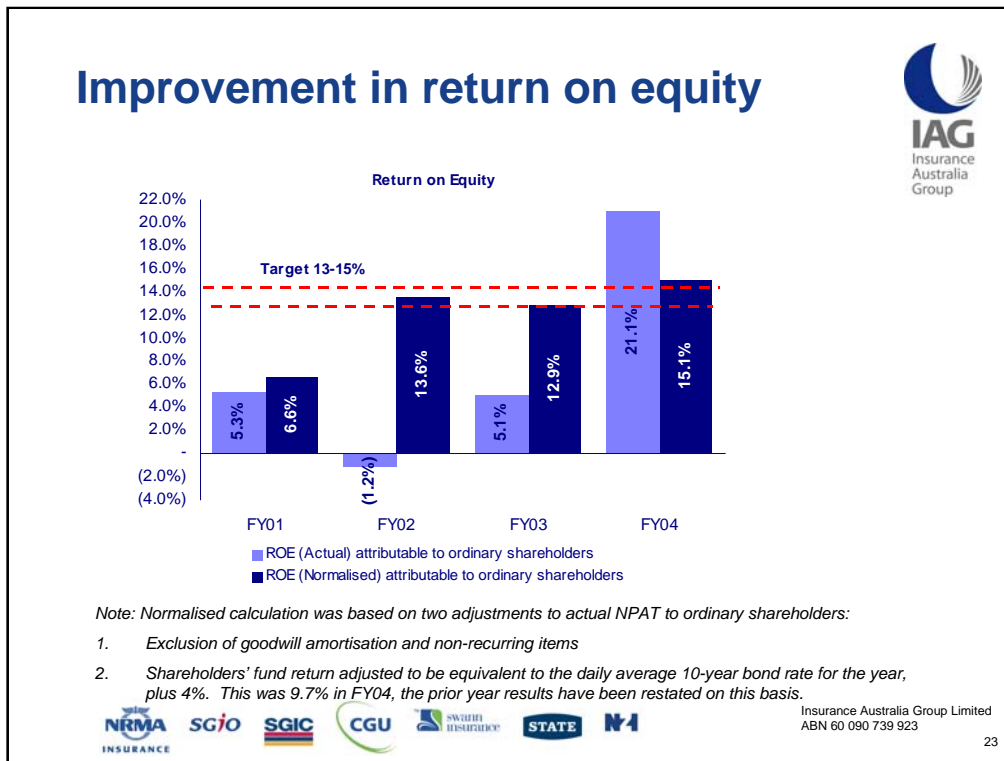
We continue to provide Minimum Capital Requirement ('MCR') multiples for both the whole Group and for the Australian operations. On both bases, the Group's position is strong.

The increase in the MCR reflects the increased size of the business and the assets backing it – there has been no change in the Group's maximum event retention of \$100m.

The increase in the MCR for the international businesses includes the increase in the risks assumed by the Group's captive from the Australian businesses.

Excess technical reserves (net of tax) have remained steady with additions to reserves for business written and some strengthening of liability reserves offsetting releases from reserves for claims settled in the period.

The \$304m profit for 2H04, excluding the ClearView profit which had been adjusted for at December 2003, largely balanced the payment of \$150m of dividends and completion of the \$414m off-market buy-back. Consequently, the Group's MCR multiple at June 2004 has remained above the current benchmark multiple of 1.60x.



The reported return on equity ('ROE') for ordinary shareholders this year is 21.1% which, as noted earlier, is due to the combination of an insurance margin of 13.5% for the year, abnormally high equity market returns and the profit on sale of the ClearView businesses.

It brings the average reported equity for the four years since listing to 7.6%, which is still short of the target range of 13 – 15% over the cycle.

Consistent with our approach when equity market performance was poor, we believe that a truer reflection of the performance is gained by looking at a normalised result.

In February 2004 we announced that we had moved to normalise only returns on shareholders' funds as the technical reserves return is effectively immunised within the insurance margin. The approach to normalising returns adopted at 1H04 was to use the 10 year bond rate plus an equity market premium of 4%. This led to a 9.7% pre-tax return for FY04.

The earlier years have now been restated on this same basis. The normalised return for the year is 15.1%, at the upper end of the target range. The average over four years is 12.1% which is still below the target range.

Achieving growth in the underlying ROE not only reflects the improved quality of the performance from the business, but also the improved capital efficiency. The Group's capital mix has moved from being 100% equity at listing to being quite stable around the target mix of 68:20:12 for equity:debt:hybrid.



Hand back to Mike Hawker, CEO.

Updated strategic financial goals



- Top quartile total shareholder return
 - TSR goal remains unchanged
 - Subsequent goals should be looked as interdependent goals to deliver the TSR goal
- ROE of at least 1.5x WACC on normalised basis
 - Do not expect to sustain more than 1.6x WACC as a return on ordinary shares
- Establish an Asian foothold
 - Seen as necessary to sustain growth to maintain scale
- Maintain an 80:20 mix of short-tail:long-tail premium
 - Updates/replaces COR of <100% - now a given
- Maintain an 'AA' category rating
 - Continues to be a good measure of the Group's risk appetite



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At February's results announcement we noted the early achievement of the 5-year goals set in May 2002. We have now reviewed and updated those goals in preparation for the next phase of the Group's development.

The overall goal remains the delivery of top quartile TSR.

For the four years from listing on 8 August 2000 to the anniversary less than two weeks ago, the Group delivered total TSR of 68.6% which ranked as 34th in the current S&P/ASX100. We were in the top quartile for the two most recent years.

The other goals are components we consider should be in place to ensure that the Group can deliver the requisite TSR.

The goal of establishing an Asian foothold is basically aligned with the previous target of doubling GWP over 5 years but has been stated in this fashion in recognition that Asia is the Group's focus for acquisitive growth. It reflects a recognition that growth in Australia & New Zealand is not likely to generate sufficient growth to double the GWP every 5 years and this is the pace of growth within the international insurance sector companies.

The new goal for return for ordinary shares is to deliver at least 1.5 times the weighted average cost of capital. It replaces the ROE target of 13 – 15% (normalised) and is based on the same fundamental views of needing to generate sufficient return to compensate shareholders for the risk they take with their capital and to ensure that capital continues to be available, balanced with avoiding instability that would follow periods of sustained high returns as competition and consumers target returns perceived as excessive. Returns on the shareholders' funds portfolio will continue to be normalised when measuring performance in the context of this goal.

The superseded targets referred to keeping the COR under 100%. This has now been achieved for three consecutive years and is inherent in being able to deliver the ROE target. The target has now been updated to reflect what we consider is an appropriate mix of business to manage the risk inherent in long-tail business.

Maintenance of a 'AA' category insurer financial strength ratings continues to be a good measure of the Group's risk appetite.

Short-term outlook for FY05



- NEP growth expected to be in 5 –7% range
 - Focus on policy growth at prices that deliver target return on WACC
 - Overall rate increases expected to be lower than in recent years
- Organic business has considerable income generating opportunities
 - Policy growth remains strong & new businesses coming on-line
 - Opportunities to improve cost and efficiency performance
 - Ready to collect returns from investments of recent periods (Integration, IT Transformation, data cleansing/segmentation)
- Positioned to sustain margins above 12% for next year at least
 - If competitive action puts pressure on this, believe we are best placed in a relative sense
 - Ability to sustain margins in a more competitive environment is a testament to the strength of the core operations



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Finally, before questions, I'd like to summarise the short-term operating outlook.

In terms of premium, the Group believes it will continue to generate good volume growth but the rate reductions being provided in commercial, CTP and workers' compensation, combined with improved portfolio mix which keeps average premium growth down, will mean that NEP growth is likely to be kept to 5 – 7%. However, the earnings growth is expected to be greater. This is based on:

- The policy growth momentum in the business, both from existing products and new product areas such as home warranty and marine;
- Completion of the integration; and
- Collection of benefits from investments made in improving the efficiency of the operations.

The overall business is still expected to deliver insurance margins in excess of 12% for at least a year to come and maybe longer. How much and how long this can be sustained depends on a number of factors. To the extent that they can be controlled by the Group, ie its own costs and its focus on appropriate rates and risk selection, we will remain focused on delivering improvements and, to the extent changes are outside the Group's control, the Group considers itself to be very well-placed in a relative sense due to its scale and diversity within the Australian and New Zealand markets.

To summarise ...



- Broad based financial institution
- Many cultures
- Significant market concentration
- Shareholders' funds income base larger than insurance operations
- Focused on general insurance
- Aligned & unified culture
- Diversified business
- Profitability based on risk selection, cost reductions and better balance between insurance earnings & investment earnings



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Questions



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