

CORPORATE GOVERNANCE

Insurance Australia Group's corporate governance structure and risk management framework provide a sustainable balance of its core purpose to pay claims and provide insurance at an affordable cost with its responsibility to provide fair and stable returns to shareholders.

1. IAG'S APPROACH TO CORPORATE GOVERNANCE

Following the publication in March 2003 of the Australian Stock Exchange Corporate Governance Council Principles of Good Corporate Governance and Best Practice Recommendations (ASX Best Practice Recommendations), the Directors examined the Group's corporate governance framework and made some adjustments to ensure that its corporate governance practices meet or exceed the ASX Best Practice Recommendations.

The principal adjustments made were:

- Introducing maximum tenure periods for Non-executive Directors (see section 2d below);
- Issuing formal appointment letters to each Non-executive Director (see section 2e below);
- Freezing the operation of the Non-executive Directors retirement benefits scheme with effect from 1 September 2003; and
- Publishing on the Group's website (<http://www.iag.com.au/pub/iag/company/corpGov.shtml>) the charters of the Board and its three standing Committees, and the Group's Code of Conduct and Continuous Disclosure & Insider Trading Policy.

During the reporting period, the Group completed the implementation of the ASX Best Practice Recommendations. Implementation of ASX Best Practice Recommendation 1.1, Formalise and Disclose the Functions Reserved to the Board and those Delegated to Management, was completed in December 2003 following the publication of the Board Charter on the Group's website.

In the past year, the Group actively participated in the debate to improve Australia's corporate governance, making submissions to the Parliamentary Joint Committee on Corporations and Financial Services on the CLERP 9 legislation, to the Australian Securities & Investments Commission in relation to the implementation of the Financial Services Reform Act, to the Davis Report into the merits of financial system guarantees, to the Potts Report in relation to the regulation of direct offshore foreign insurers and discretionary mutual funds, as well as proposals by APRA to strengthen the prudential regime for the Australian general insurance industry. In addition, IAG representatives have participated in forums, working parties and committees of insurance industry associations, accounting and actuarial professional bodies established to formulate, among other things, the new General Insurance Code of Practice and to respond to proposals for the introduction of new accounting standards which have particular application to the general insurance industry.

The Group believes that, through active engagement with governments, regulators, industry and professional groups, we can best work to ensure that the interests of the Group and its stakeholders are properly considered in the formulation of proposals to improve Australia's corporate governance, general insurance prudential regime and insurance industry practices. Appropriate regulation enhances, rather than stifles, competition, protects consumers and promotes and sustains public confidence in insurers and their products.

2. THE BOARD OF DIRECTORS

2a. Roles and Responsibilities

The Board

The Board is accountable to shareholders for the performance, operations and affairs of the Group. The Board's principal role is to govern, rather than manage, the Group. The Directors represent and serve the interests of the shareholders and collectively oversee and appraise the strategies, policies and performance of the Group.

In performing its role, the Board is mindful that the obligations of the Directors are primarily set out in the Corporations Act, the Insurance Act and general law.

The Board is responsible for oversight of the Group, and specifically:

- Driving the strategic direction of the Group by setting goals and policies, and approving corporate strategies and risk appetite;
- Monitoring management's performance;
- Selecting, regularly evaluating and, if necessary, replacing the Chief Executive Officer;
- Appointing and, where appropriate, removing the Chief Financial Officer and the Company Secretary;
- Reviewing of management succession planning;
- Providing advice and counsel to senior management;
- Selecting and recommending appropriate candidates to the Group's shareholders for election to the Board;
- Evaluating Board processes and performance of the Board as a whole, as well as contributions by individual Directors;
- Monitoring financial performance and reporting;
- Reviewing the adequacy of systems to comply with all laws and regulations which apply to the Group and its business;
- Monitoring key risk areas by ensuring the implementation of a suitable risk management and internal controls framework;
- Ensuring that reporting and disclosure processes include all relevant legal and commercial requirements; and

- Ensuring that proper governance practices (including appropriate standards of ethical behaviour, corporate governance and social responsibility) are adhered to at all times.

The Chief Executive Officer

The Board has delegated responsibility for the day-to-day operations and administration of the Group to the Chief Executive Officer, who is responsible for:

- In conjunction with the Board, developing, implementing and monitoring the strategic and financial plans of the Group;
- The efficient and effective operation of the Group;
- Ensuring the ongoing development, implementation and monitoring of the Group's risk management and internal controls framework;
- Ensuring the Board is provided with accurate and clear information in a timely manner to promote effective decision-making by the Board; and
- Ensuring all material matters affecting the Group are brought to the Board's attention.

The Chairman

The Chairman provides leadership to the Board and the Group. The Chairman presides at Board and general meetings of the Group. The Chairman is responsible for ensuring the Board discharges its role, and works closely with the Chief Executive Officer in that regard. The roles of the Chairman and the Chief Executive Officer are separate.

The Board does not have a Deputy Chairman. However, Mr Rowan Ross has, on occasions, acted in this capacity.

2b. Structure and composition of the Board

The Group's Constitution provides for a minimum of three directors and a maximum of 12 or less directors as determined by the Directors from time to time. The Directors have determined that, for the present, the maximum number of directors is eight. The Board currently comprises seven Non-executive Directors and one Executive Director, whose position as a Director is on an ex-officio basis.

The Board has determined that the Board must be comprised of a majority of independent Non-executive Directors and that the Chairman must be an independent Non-executive Director.

The Board will determine whether each Director is independent, using the principles outlined in its Charter. Independence will be taken to be met when a Director is a Non-executive Director and:

- Is not a substantial shareholder of the Group (a shareholder with 5% or more of the issued voting shares), or associated directly with a substantial shareholder of Insurance Australia Group;

- Has not within the last three years been employed as an executive of the Group or any of its subsidiaries or been a Director after ceasing to hold any such employment;
- Has not within the last three years been associated with, or a principal of, a material professional adviser or material consultant to the Group, or an employee materially associated with the service provided;
- Is not a material supplier or customer of the Group, or an officer of or otherwise directly or indirectly associated with a material supplier or customer and has no material contractual relationship with the Group other than as a Director;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group (as determined by the Board in the case of each Director); and
- Is otherwise free from any interest and any business or other relationship which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Group.

The Directors have determined that a relationship is material where the value of goods or services provided to the Group in the past three years accounts for 5% or more of the consolidated gross revenue or consolidated expenses of either the Group or the supplier/customer's corporate group over that three year period.

Non-executive Directors are required to confirm their independence periodically while they remain in office.

Where the Board is required to approve a transaction or arrangement with an organisation in which a Director has an interest, the relevant Director must disclose their interest and abstain from voting. Furthermore, Directors with potential conflicts do not serve on any Board sub-committees that are appointed to provide oversight of the implementation of the relevant transactions or arrangements, in which the other organisation plays a role.

The Board reviews its size and composition annually. In reviewing the size and composition of the Board, Directors will consider, among other things:

- the nature, size and complexity of the Group; and
- the efficiency and effectiveness of the Board, balancing the need to have sufficient skills and expertise to fulfil the needs of the Board and all its Committees, with the need to maintain a Board size where all Directors can effectively participate and contribute.

The names of Directors in office at the date of this report, their year of appointment, their designation as a Non-executive independent or

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Executive Director and their experience, expertise, and biographical details are set out at pages 30 to 31.

The Board engages reputable recruiting consultants to assist the Board to identify suitable candidates for appointment to the Board.

2c. Induction and training

The Group encourages continuing professional education for each of its Directors. All Directors are expected to remain up to date in relation to issues affecting the Group, the general insurance industry, and their duties as Directors.

New Directors and senior executives have access to an orientation programme to introduce the executive team and detail the Group's businesses. A programme introducing the fundamentals of general insurance entitled "Insurance 101" is also available to Directors and executives.

2d. Tenure

It is expected that Directors will continue as Directors only for so long as they have the confidence of their fellow Board members and the confidence of the Group's shareholders.

To ensure the Board comprises Non-executive Directors who collectively have the relevant experience required and who maintain their independent status, in September 2003 the Board introduced a tenure policy to apply to Non-executive Directors. The policy provides that the maximum tenure for a Non-executive Director shall be:

- Two elected terms each of three years if the Director is first appointed at an Annual General Meeting (AGM) of the Group;
- If a Director has been appointed to fill a casual vacancy, the initial pre-AGM period of appointment (not exceeding one year) plus two elected terms each of three years; or
- If a Director's first two elected terms total less than six years' duration, a maximum of seven years, with the expectation that the Director will not stand for re-election at an AGM if the Director's further term, if re-elected, would take the Director's total tenure beyond seven years.

Subject to re-election by the Group's shareholders, a Director's expected tenure may be extended for a further period or term at the request of the Board where the majority of the Board has determined that it is in the Group's best interests.

Two Non-executive Directors, Mrs Maree Callaghan and Mrs Mary Easson, advised they would not stand for re-election at the November 2003 Annual General Meeting and resigned from the Board on 1 September 2003.

2e. Appointment terms

During the year, formal appointment letters were issued to each Non-executive Director, including the Chairman, to assist individual Directors in understanding the role of the Board and the corporate governance principles being implemented by the Board. The letters formally document the basis of each Director's appointment, including the proposed maximum term of their appointments and the cessation of further accrual of retirement benefits.

The appointment letters also provide for:

- The right of Non-executive Directors to obtain independent professional financial and legal advice at the Group's expense to assist with discharging their duties efficiently upon providing prior notice to the Chairman;
- Measures used and the processes to be applied by the Board to assess the individual performance of Directors, details of which are set out in section 2f below; and
- The expectation that Directors will abide by the Group's Code of Conduct and its Continuous Disclosure & Insider Trading policy.

2f. Measuring the performance of Directors

The Nomination, Remuneration & Corporate Governance Committee conducts a formal review of the Board's performance, composition and size at least every three years.

Each Director's performance is subject to evaluation by the Chairman at least every two years, by discussion between the Chairman and the Director. Individual Directors also evaluate the Chairman's performance at least every two years. Measures of a Director's performance will include:

- Contribution of the Director to Board teamwork;
- Contribution to debates on significant issues and proposals;
- Advice and assistance given to management;
- In the case of the Chairman's performance, the fulfilment of his or her additional role as Chairman; and
- Input regarding regulatory, industry and social developments surrounding the business.

The last review of individual Directors' performance was conducted in 2003, with assistance and input from an independent board performance expert.

2g. Board operations

The Board meets formally at least 10 times during the year.

Supplementing these meetings are biannual Board strategy forums with the Group's executive team, which were held in September 2003 and April 2004 during the past financial year. These two-day strategy forums facilitate in-depth education on and analysis of areas of the business as well as longer-term focus areas and strategic initiatives.

Directors are also involved in a number of due diligence meetings for specific company initiatives which, during the past year, included the off-market buy-back of the company's ordinary shares, which was completed successfully in June 2004. In addition, Directors served on Board sub-committees established to provide oversight and approval of the disposal of non-core businesses, including the Group's health underwriting and ClearView Retirement Solutions businesses, and the renewal of the Group's reinsurance programme.

Directors are encouraged to bring to Board meetings objective independent judgment in relation to the matters under consideration, to ask incisive, probing questions and require accurate, honest answers.

Directors' attendance at Board and Committee meetings held during the year are shown at page 45 of the Directors' Report.

Directors meet from time to time without the Chief Executive Officer and/or management representatives present in both Board and Board standing committee meetings. Senior management representatives frequently attend Board meetings at the Board's invitation.

Directors receive agendas, board papers and minutes in hardcopy form or may access and download this information from a secure website established for this purpose.

3. COMPANY SECRETARY

The Group Company Secretary & Head of Investor Relations is Ms Anne O'Driscoll, FCA ANZIF (Fellow), who was appointed to the position of company secretary by the Board in July 2002. Prior to her appointment to this position, Ms O'Driscoll had held the position of General Manager, Finance. She joined the organisation in 1995. Ms O'Driscoll is responsible to the Board for ensuring Board procedures are complied with. She also provides advice and counsel to the Board in relation to corporate governance, investor relations and other matters.

4. STANDING COMMITTEES

The Group has three standing Board Committees, each with charters and established operating procedures. Copies of the committee charters are available at the Group's website <http://www.iag.com.au/pub/iag/company/corpGov.shtml>.

Copies of all Committees' agendas, papers and minutes are disseminated or made available to all Board members.

4a. Nomination, Remuneration & Corporate Governance Committee

The Nomination, Remuneration & Corporate Governance Committee has three members, each of whom are independent Non-executive Directors of Insurance Australia Group. Currently, the members of this committee are James Strong (Chairman), John Astbury and Rowan Ross. Committee meetings are held at least four times a year.

The main responsibilities of this committee include:

- Reviewing Board performance, size and composition every three years, and recommending candidates for appointment to the Board;
- Providing assistance to the Chairman on the review of the performance of individual Directors and making recommendations on the operation of the Board;
- Making recommendations to the Board in respect of the remuneration of Non-executive Directors and the Chief Executive Officer as well approval of the remuneration of the direct reports to the Chief Executive Officer;
- Considering the Chief Executive Officer's performance and plans for succession as well as reviewing management plans for executive succession;
- Ensuring the Group's overall remuneration policy and approach fit the strategic goals of the Group;
- Monitoring the effectiveness and integrity of, and compliance with, the Group's remuneration and human resource policies and practices; and
- Considering social, environment and ethical impacts of the Group's business practices and setting standards for social, environmental and ethical practices.

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4b. Audit Committee

The Audit Committee has three members, who are all independent Non-executive Directors of IAG. Currently, the members of this committee are John Astbury (Chairman), Geoffrey Cousins and Anne Keating. Committee meetings are held at least four times a year.

The main responsibilities of this committee include:

- Assisting the Boards of Directors to discharge their responsibility to exercise due care, diligence and skill in relation to the Group's full and half-year financial reporting to ensure it is consistent with committee members' information and knowledge and sufficient for shareholder needs;
- Monitoring the application of accounting and actuarial standards, policies and practices by senior financial management when preparing full and half year financial reports;
- Assessing information from the external auditors and the internal audit function that affects the quality of financial reports;
- Reviewing external financial reporting arrangements including external auditor engagement, remuneration, independence and effectiveness;
- Making recommendations to the Board on the appointment, removal and remuneration of the external auditor and monitoring his/her effectiveness;
- Monitoring compliance with an agreed framework for dealing with the external auditor's and consulting actuaries' firm, for the provision of other services;
- Meeting with the Approved Auditor, the Approved Actuary and the consulting actuaries on at least an annual basis without management being present; and
- Reporting to the Board on all matters relevant to the Committee's responsibilities.

The Audit Committee is also empowered as the audit committee of the Group's subsidiaries that are authorised general insurers in Australia, except for Insurance Manufacturers of Australia Pty Limited which has a separate Audit, Risk Management & Compliance Committee.

4c. Risk Management & Compliance Committee

The Risk Management & Compliance Committee, has three members, who are all independent Non-executive Directors of IAG. Currently, the members of this committee are Rowan Ross (Chairman), Dominique Fisher and Neil Hamilton. Committee meetings are held at least four times a year.

The main responsibilities of this committee include:

- Overseeing the Group's risk management systems, practices and procedures to ensure effectiveness of risk identification and management, and compliance with internal guidelines and external requirements;

- Reviewing and evaluating the Group's internal control systems to ensure effectiveness;
- Approving the internal annual audit plan proposed by Group Risk Assurance and monitoring progress against the plan;
- Making recommendations to the Board on the appointment and removal of the Head of Group Risk & Compliance and monitoring his/her effectiveness; and
- Reporting to the Board on all matters relevant to the Committee's responsibilities.

5. ETHICAL AND RESPONSIBLE DECISION-MAKING

The Group takes ethical and responsible decision-making very seriously. It expects its employees and Directors to do the same, as reflected in its internal policies around conduct, continuous disclosure and insider trading.

The Group's Code of Conduct extends to all people employed by the Group including the Board and executive management. The code is designed to encourage ethical and appropriate behaviour in all avenues of work, based on the following principles:

- Acting honestly and openly in all dealings;
- Complying with all laws and industry codes that regulate our activities;
- Abiding by our rules to prevent insider trading;
- Maintaining confidentiality; and
- Avoiding conflicts of interest.

The Group's Continuous Disclosure & Insider Trading Policy reinforces its commitment to continuous disclosure, as well as the responsibility of all employees regarding price sensitive information and insider trading. The policy includes a protocol outlining how information is released to the public and focuses on improving continuous disclosure and access to information for all investors. The policy also provides examples of what could constitute price sensitive information and how knowledge of such information prohibits share trading. A Share Trading Protocol sets the framework for employee dealings in the Group's shares and related derivatives, and aims to prevent employees from inadvertently breaching insider trading laws. The protocol specifies that Directors and designated employees may only buy or sell shares or options in the 2 to 30 day period immediately following the Group's half-year and full-year results announcements and the Annual General Meeting, subject to not being in possession of inside information as defined by the law.

Directors and management are encouraged to assist in the process of the Board identifying, evaluating and reporting on matters to comply with the provisions of the Corporations Act and the ASX Listing Rules in relation to continuous disclosure so as to keep the market fully informed.

6. SHAREHOLDERS

In keeping with the Code of Conduct and the spirit of continuous disclosure, the Group is committed to ensuring shareholders are informed of significant developments for the Group. Regular announcements to the ASX are proactively relayed through an email messaging service to shareholders who are registered to receive such, and are posted on the Group's website, www.iag.com.au.

Major investor briefings are webcast where practical and copies retained on the website for ease of access. When conducting briefings of investors, care is taken to ensure that price sensitive information is not inadvertently communicated to market participants and is provided to all investors and market participants at the same time in accordance with the ASX Listing Rules.

Media coverage of key events is also sought as a means of delivering information to shareholders and the market. Formal communication with shareholders is also conducted via the annual report, concise annual report, half-year report and at the Annual General Meeting of shareholders.

The Group is mindful of the need to adopt best practices in the drafting of Notices for General Meetings and other communications with shareholders.

Electronic proxy voting will be introduced for the 2004 Annual General Meeting to facilitate ease and timeliness of lodgement by shareholders of their voting on resolutions to be put to the meeting.

Shareholders are encouraged to attend general meetings and ask questions of the Chairman and the Board. Shareholders may raise any issues or concerns at any time by contacting the company.

Shareholders may wish to email their questions or comments to investor.relations@iag.com.au or write to the Chairman or Company Secretary at Insurance Australia Group Limited, Level 26, 388 George Street, Sydney NSW 2000.

The external auditor attends general meetings and is available to answer shareholders' questions concerning the conduct of the audit and the preparation and content of the auditor's report.

7. RISK MANAGEMENT

The Group's risk management framework is based on the interaction of the oversight structure, internal policies, key risk management processes, and culture.

7a. Oversight structure

A number of key forums and executives oversee the Group's management of risk. These are summarised below and detailed in approved charters and role descriptions:



The roles and composition of the executive management committees are detailed as follows:

Operational Review Management Committee (ORM)

ORM is responsible for:

- Reviewing of corporate strategies and the performance of the Group and its business units compared to budgets, forecasts and corporate plans;
- Monitoring the Group's operational risk;
- Authorising capital allocation to projects within financial delegation limits approved by the Board;
- Reviewing health, safety, environment and community performance; and
- Reviewing human resource performance and reward strategies.

Its members include Mr Michael Hawker (Chair) and his Executive team who are listed at page 20 and 21 of this Annual Report together with their biographical details.

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Asset and Liability Committee (ALCo)

The role of ALCo is to allow the Group's senior management to:

- Formulate recommendations for the Board concerning issues related to capital management and risk management, including credit risk and asset allocation;
- Oversee implementation of Board policies concerning risk and capital management;
- Oversee the initial and ongoing implementation of, and compliance with, the Group's Risk Management Strategy (RMS) and Reinsurance Management Strategy (REMS); and
- Report to the Risk Management & Compliance Committee concerning compliance with, and the effectiveness of, the RMS and REMS.

Its members include Mr Michael Hawker (Chair) and the Group's executives with operational and financial roles and other key senior management with responsibility for finance, treasury, actuarial, investment and reinsurance functions.

Underwriting & Pricing Policy Committee (UPPCo)

The role of UPPCo is to provide the Group's senior management with a forum in which to:

- Establish or modify the Group's pricing principles and framework;
- Review and endorse business strategies within appropriate delegation and approval limits;
- Determine and monitor group underwriting standards; and
- Monitor group insurance risk accumulations and group reinsurance requirements.

Its members include Mr Michael Hawker (Chair) and the Group's executives with operational and financial roles and other key senior management with responsibility for insurance strategy, pricing, underwriting, actuarial and reinsurance functions.

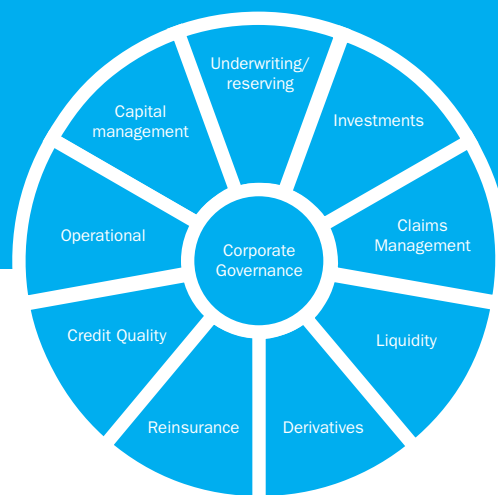
7b. Internal policies

Together with the Code of Conduct and Continuous Disclosure and Insider Trading Policy, the Risk Management Strategy details the Group's principles, appetite, key controls and monitoring processes for managing the risks outlined in the diagram "IAG's risk categories" on page 39.

7c. Key risk management processes

Management employs the following key processes to meet as well as monitor the requirements of the Group's Risk Management Strategy.

Management Assurance Framework	Framework of self-assessment questions posed to, and answered by, management relating to the effectiveness of risk management processes and internal controls. The answers support the CEO, CFO and Board declarations on risk management, internal control and external financial reporting.
Risk Profiling	Each Business Unit identifies, assesses and designs controls for risks to achieving business objectives.
Risk Reporting	Reporting on risk management initiatives and issues is supplied: <ul style="list-style-type: none"> • To the Operational Review Management Committee by each Business Unit; • To the key management committees (ie ALCo, UPPCo) relating to the specific risks that these bodies oversee; • To each meeting of the IAG Risk Management & Compliance Committee and IAG Audit Committee; and • To regulators and industry groups, where relevant and appropriate.
Internal Audit	Internal independent reviews of key risk areas, processes, projects and management assertions about risk management and internal control. The internal audit function (Group Risk Assurance) reports to the Head of Group Risk and Compliance, who reports to the Chief Risk Officer, the IAG Risk Management & Compliance Committee and the IAG Audit Committee.
Independent Auditor's Reviews	External independent reviews of key financial risk areas, processes and issues.



IAG's risk categories

7d. Culture

The Board and management actively promote a culture of transparency, encouraging early and open communication of risk. To facilitate this open culture, the Board provides open access to the Chairs of the Board, the Audit Committee, and the Risk Management & Compliance Committee. In particular, the Group has established:

- mechanisms for rapid escalation of important matters to relevant executives and/or Board members; and
- performance incentives for management aimed at encouraging a proactive risk management culture.

8. SOCIAL AND STAKEHOLDER RESPONSIBILITY

The Group recognises that its business has an impact on the community, the environment and the wider economy, and believes it must operate in a way that responds to these impacts effectively to meet its commitments to shareholders, customers and employees.

The Group acknowledges that the sustainability of its business is directly tied to the sustainability of the communities in which it operates. The Group believes that returns to its shareholders, and the Group's own stability and growth potential, will be enhanced by conducting business in a way that creates value for society across environmental, social and economic dimensions.

Social responsibility is a basic foundation for the way the Group operates. The Group is committed to ensuring it has appropriate policies and agreed practices to guide its actions, including employee practices, conduct in the marketplace, environmental care, governance and ethical conduct, occupational health and safety, human rights and community involvement.

The Group acknowledges that its suppliers, vendors and contractors impact upon society, the environment and the wider economy. Accordingly, the contracting of services and the purchase, hire or lease of equipment and materials must be consistent with the Group's Supplier Selection Guidelines.

The Group's Statement of Commitment to Community, Safety and the Environment is available at <http://www.iag.com.au/pub/iag/sustainability/index.shtml>. In addition, the Group expects to release a Sustainability Report later in 2004.

9. REMUNERATION FRAMEWORK

The Group's approach to compensation arrangements for all employees, including Non-executive Directors and executives, is based on ensuring that the Group can attract and retain the best people to drive corporate performance and deliver fair returns to shareholders.

9a. Non-executive Directors

Details of the Group's remuneration policies for its Non-executive Directors are disclosed in the Directors' Report on page 46 and at Note 9 to the Full Financial Report.

The Group decided to freeze the operation of the Non-executive Director retirement benefit scheme adopted by the Group in 2001 with effect from 1 September 2003.

The terms of the retirement benefits scheme provided for:

- Any Non-executive Director of the Group who had completed five years' continuous service with the Group (including service with any of its subsidiaries) at the date of retirement, a retirement benefit equivalent to the last three years' Directors' fees, employer contributions to superannuation, committee fees and fees for extra services received from the Group and its subsidiaries.
- A pro-rata retirement benefit for Non-executive Directors who have completed at least three years' service but less than five years' service at the date of their retirement, based on a specified formula.
- No retirement benefit to be paid to a Non-executive Director who had served for a period of less than three years.

The Group determined that the frozen retirement benefits would be calculated as follows:

- Non-executive Directors joining the Board from 1 September 2003 would have no retirement benefit;
- For each current Non-executive Director who had served a minimum of three years, the retirement benefit was assessed as if they had retired at 31 August 2003; and
- For a Non-executive Director with less than three years of service at 31 August 2003, a retirement benefit was assessed as if they had three years of service as at that date, and then reduced on a pro-rata basis based on their uncompleted period of service as a proportion of three years. The retirement benefit is not subsequently payable to such a Non-executive Director if they had less than three years of service as a Non-executive Director at the date of their retirement.

Retirement benefits of \$269,008 and \$276,115 were paid to Mrs Maree Callaghan and Mrs Mary Easson, respectively, following their retirements from the Board on 1 September 2003.

No amounts have been accrued in the accounts of the Group for the frozen retirement benefits of the remaining Directors who held office on 31 August 2003 and who have continued in office since, as the Board has not exercised its discretion to pay these retirement benefits. The remaining Non-executive Directors who held office at 31 August 2003 were Ms Fisher and Ms Keating and Messrs Strong, Astbury, Ross, Cousins and Hamilton. The total maximum frozen retirement benefits which may be payable to these Directors, is approximately \$1,640,000 although this amount may be higher depending on the amount of company-funded superannuation payable to a director at the time of their retirement.

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9b. Executive

The Group's executive remuneration philosophy is to reward performance in line with the returns delivered to its shareholders. This is achieved via a remuneration framework that is based on domestic and international best practice and which contains an appropriate mix of fixed and variable reward.

The principles which underpin the Group's executive remuneration philosophy, are:

- The mix of fixed and variable reward should be reflective of the seniority of the position, impact on the Group's results and market practice;
- Measures of performance should adopt a balanced scorecard approach and focus on delivering sustainable value to our shareholders;
- There should be an appropriate balance between delivering both short term results and longer term, sustainable performance;
- Remuneration policies and practices should be consistent with the Group's values and with general community expectations and standards;
- All performance measures should be clearly defined and time bounded; and
- Executive remuneration should be sufficiently competitive to attract and retain the calibre of executive management required to deliver shareholders' performance expectations.

There are four components to the Group's executive remuneration programme:

- base salary;
- short term incentive;
- long term incentive; and
- superannuation.

The combination of these four components comprises the executive remuneration package.

(i) Base salary

Base salary is determined by a review of job size; internal relativities; and, independent external market review and analysis. Unless there has been a significant change in job size, base salary increases will generally not exceed movements in external market rates.

(ii) Short term incentive

The CEO and executives have the opportunity to earn a short term incentive payment based on both their contribution to the Group's performance and their own individual performance. At the commencement of each business year, a range of stretching and measurable Group and individual goals are agreed with each executive.

At the end of the business year the quantum of any incentive payment is determined based on measured achievement of those goals.

(iii) Long term incentive

The CEO and executives may be invited to participate in the Group's long term incentive plan. The plan is designed to align their financial interests with the interests of our shareholders. It delivers equity to the participants if certain long term performance targets are achieved.

The Performance Award Rights Plan (PAR Plan), which is described in more detail at Note 42(g) of the Full Financial Report, is designed to align reward outcomes with growth in Total Shareholder Return (TSR) as measured against a peer group of companies. The timeframe for measuring TSR growth is three to five years. The Performance Award Rights (PARs) do not vest to the employee unless TSR growth is at least at the 50th percentile when measured against the peer group of companies and full vesting requires TSR growth to be at least at the 75th percentile.

Factors considered in determining any individual allocation include the current track record of individual performance and contribution to the longer term strategic direction of the Group.

At the Group's November 2003 Annual General Meeting, shareholders approved an arrangement for the CEO, Michael Hawker, whereby a total allocation of 1,500,000 PARs could be granted to him within the following three year period at the Board's discretion. As a condition of that arrangement, any annual allocation could not exceed 600,000 PARs. Mr Hawker received a grant of 400,000 PARs in November 2003, which leaves a maximum pool of 1,100,000 PARs which may be allocated to Mr Hawker over the next two years. The performance measure for determining the vesting of any PARs granted to Mr Hawker is the same as that applying to other participants within the PAR Plan.

(iv) Superannuation

The Group provides employer superannuation contributions to the CEO and executives at the rate of 13% of base salary. This contribution rate is consistent with that provided to other employees of the Group.

The Nomination, Remuneration & Corporate Governance Committee reviews and approves all recommended changes to any of the components of executive remuneration as outlined above. The Committee, at its discretion, may seek further independent advice on any aspects of recommendations placed before it for approval.

Information about the Group's executive remuneration policies and practices are provided in the Directors' Report and at Note 9 of the Full Financial Report.