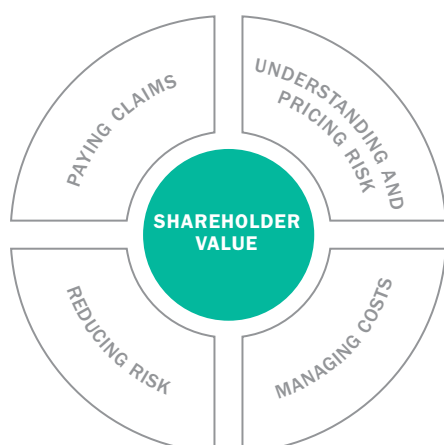


BUILDING A SUSTAINABLE CULTURE

The opening pages of this report feature just a few of the many IAG employees who bring life to our company's purpose – helping to pay claims, understand and price risk, manage costs and reduce risk.

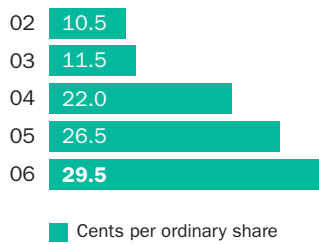
We believe building a common culture based on these four principles will enable us to deliver value to our customers and shareholders over the long term.

The solid performance achieved by IAG this financial year, despite a difficult operating environment, is testament to this philosophy, the strength of our strategy and the dedication of our people.

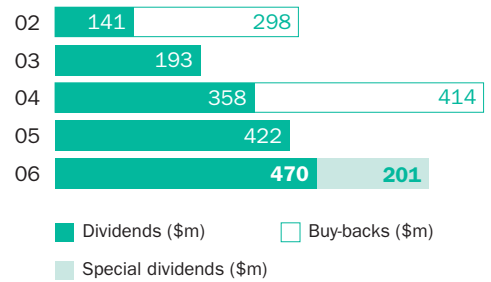


James Strong
Chairman

DIVIDENDS (INTERIM AND FINAL) IN RESPECT OF THE YEAR ENDED 30 JUNE



CASH RETURNED TO ORDINARY SHAREHOLDERS IN RESPECT OF THE YEAR ENDED 30 JUNE



ACHIEVING SUSTAINABLE RESULTS

I am pleased to report that IAG again delivered a solid performance for the year to 30 June 2006.

IAG recorded a net profit after tax of \$759 million, and its second-highest insurance margin and return on equity since listing.

We achieved this by maintaining high customer retention in all major portfolios, and adhering to risk and underwriting disciplines rather than chasing unprofitable market share. We contained our expenses, and we benefited from the first financial contribution from our recently acquired Asian insurance operations.

Record investment returns on our shareholders' funds also contributed to the strength of the result, driven by buoyant equity markets and the additional value generated by our asset managers.

The Board has declared a fully franked final dividend of 16 cents per ordinary share, to be paid on 9 October 2006. This brings total dividends for the year to 29.5 cents per share, representing an 11.3% increase on the previous year. In addition, IAG paid a special dividend of 12.5 cents per ordinary share in June 2006, in line with our commitment to return \$200 million in surplus capital to shareholders.

When measured since 1 January 2002, IAG's cumulative total shareholder return is 104.4%, which ranks the Group 25th of companies in the S&P/ASX100 that operated throughout the period.

DELIVERING ON STRATEGY

We have made significant progress against the corporate strategy to which we committed in 2002.

At that time, we recognised the need to generate scale in Australia and New Zealand, and diversify our business by geography, product and distribution channel to ensure we spread our risks and ensure sustainable profitability. We achieved these goals primarily through the acquisition of CGU and NZI, and by continuing to improve our franchises.

We also recognised the need to expand internationally, to achieve acceptable growth rates for our shareholders over the long term. As a result, we decided to build an Asian foothold as the first phase of our international expansion. We made progress against this goal during the past 12 months, having acquired interests in Thailand, Malaysia and Singapore. We also moved closer to completing a major investment in China's second largest general insurer. These steps provide us with access to some of the world's fastest-growing insurance markets.

CORPORATE GOVERNANCE

To ensure we create value for our shareholders in a sustainable fashion, IAG is committed to the highest standard of corporate governance.

Our approach to governance is based on the view that it must be more than just compliance. Whilst we already have the systems to help comply with a multitude of regulations, codes, rules and practices which govern how we operate, we believe the best protection for a company is a healthy risk management culture based on strong values and a commitment to achieving the company's goals.

We have developed a system for measuring the health of our culture. This has been incorporated into management reporting and is being used to identify and motivate areas needing improvement.

We are also upgrading our risk and governance framework to cater for our growing portfolio of international interests.

Your Directors have a constant focus on these important issues, and I would like to thank each of them for their consistent contribution over the course of the year.

With the challenges facing the company in its domestic market and in growing internationally, CEO Michael Hawker made a number of changes to his executive team to ensure the Group has appropriately skilled management. These changes ensure roles are better matched to business areas, and are discussed in the CEO's Review.

On behalf of the Board, I would like to express appreciation to Michael Hawker and his executive team. IAG's strong performance is a reflection of their leadership, which has helped to create an enthusiastic and productive workforce.

I believe the strength of the executive team will carry the company into its next phase of growth.

LOOKING FORWARD

We will continue to explore additional opportunities to generate global scale, by building a portfolio of assets throughout Asia and other international insurance markets, whilst continuing to improve our domestic operations.

James Strong
Chairman