

# NOTES TO THE CONCISE FINANCIAL STATEMENTS

for the year ended 30 June 2006

This concise financial report relates to the consolidated entity consisting of Insurance Australia Group Limited (“the Company”) and its subsidiaries (“IAG Group” or “Consolidated entity”) for the year ended 30 June 2006. The accounting policies adopted have been consistently applied to all years presented, unless otherwise stated in note 1 below.

The Company is a kind referred to in Class Order 98 / 100, issued by the Australian Securities & Investments Commission, relating to the “rounding off” of amounts in financial reports. Amounts in the concise financial report have been rounded off in accordance with that Class Order to the nearest million dollars.

## NOTE 1. ADOPTION OF AUSTRALIAN EQUIVALENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The full financial report on which this concise financial report is based is the first annual Insurance Australia Group Limited financial report to be prepared in accordance with Australian equivalents to International Financial Reporting Standards (“AIFRS”). AASB 1 *First-time Adoption of Australian Equivalents to International Financial Reporting Standards* has been applied in preparing the full financial report.

The financial reports were prepared in accordance with Australian Generally Accepted Accounting Principles (“Australian GAAP”) for all periods up to and including the year ended 30 June 2005. From 1 July 2005, the financial reports are required to be prepared in accordance with AIFRS effective for the year ended 30 June 2006. The date of transition to AIFRS was 1 July 2004, which is the start of the comparative period. AGAAP differs in certain respects from AIFRS. When preparing financial statements for the year ended 30 June 2006, management has amended certain accounting, valuation and consolidation methods applied in the AGAAP financial statements to comply with AIFRS. With the exception of financial instruments and insurance contracts, the comparative figures in respect of 2005 were restated to reflect these adjustments. The IAG Group has elected to utilise the exemptions available under AASB 1 to only apply AASB 132 *Financial Instruments: Disclosure and Presentation*, AASB 139 *Financial Instruments: Recognition and Measurement* and AASB 1023 *General Insurance Contracts* from 1 July 2005.

Reconciliations and descriptions of the effect of the transition from AGAAP to AIFRS on the IAG Group's equity and its net income are given in note 38 of the full financial report. A summary of this information is provided below.

	CONSOLIDATED		
	1 July 2005 \$m	30 June 2005 \$m	1 July 2004 \$m
<b>(a) Impact on total equity reported under previous AGAAP</b>			
Total equity under AGAAP as reported in the 2005 annual financial report	4,440	4,440	4,224
<b>Adjustments applicable from 1 July 2004</b>			
<i>Adjustments to retained earnings</i>			
Reversal of goodwill amortisation	92	92	n/a
Recognition of defined benefit plans	(23)	(23)	57
Adjustment to share based remuneration expense	5	5	2
Capitalisation of software development costs	24	24	n/a
Reversal of market value movements on property	(8)	(8)	–
Recognition of depreciation on buildings	(1)	(1)	n/a
Recognition of lease provision amortisation	(11)	(11)	(8)
Net tax impact of AIFRS adjustments	6	6	(16)
Adjustment for minority interests	(1)	(1)	(3)
	83	83	32
<i>Adjustments to reserves</i>			
Recognition of share based payment reserve	13	13	5
<i>Adjustments to treasury shares</i>			
Consolidation of share based remuneration trusts	(34)	(34)	(21)
<i>Adjustments to minority interests</i>			
Net adjustments impacting minority interests	1	1	3
<b>Adjustments applicable from 1 July 2005</b>			
<i>Adjustments to retained earnings</i>			
Adjustment to valuation of investments	1	n/a	n/a
Amortisation of reset preference shares transaction costs	(6)	n/a	n/a
Accrual for distribution on reset preference shares	(1)	n/a	n/a
Net tax impact of AIFRS adjustments	–	n/a	n/a
Adjustment for minority interests	1	n/a	n/a
	(5)	n/a	n/a
<i>Adjustments to reserves</i>			
Adjustment for cash flow hedge accounting	(7)	n/a	n/a
Net tax impact of AIFRS adjustment	2	n/a	n/a
	(5)	n/a	n/a
<i>Adjustments to share capital</i>			
Reclassification of reset preference shares	(550)	n/a	n/a
Reclassification of reset preference shares transaction costs	11	n/a	n/a
	(539)	n/a	n/a
<i>Adjustments to minority interests</i>			
Reclassification of minority interests in unitholders' funds	(421)	n/a	n/a
Net other adjustments impacting minority interests	(1)	n/a	n/a
	(422)	n/a	n/a
Total equity under AIFRS	3,532	4,503	4,243

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	CONSOLIDATED
	Year ended 30 June 2005 \$m
<b>(b) Impact on profit for the year ended 30 June 2005</b>	
Profit for the year as reported under AGAAP	879
Reversal of goodwill amortisation	92
Movement in defined benefit plans	(80)
Adjustment to share based remuneration expense	3
Capitalisation of software development costs	24
Reversal of market value movements on property	(8)
Recognition of depreciation on buildings	(1)
Recognition of lease provision amortisation	(3)
Net tax impact of AIFRS adjustments	22
Profit for the year under AIFRS	928

## NOTE 2. PRESENTATION CURRENCY

The presentation currency used in this concise financial report is Australian dollars.

## NOTE 3. ANALYSIS OF INCOME

	CONSOLIDATED	
	2006 \$m	2005 \$m
<b>(a) General insurance revenue</b>		
Direct gross written premium	6,434	6,674
Movement in unearned premium liability	102	(112)
Direct premium revenue	6,536	6,562
Inwards reinsurance premium revenue	1	(1)
Premium revenue	6,537	6,561
Reinsurance and other recoveries revenue	566	660
Total general insurance revenue	7,103	7,221
<b>(b) Investment income</b>		
Dividend revenue	87	96
Interest revenue	375	394
Trust revenue	33	15
Total investment revenue	495	505
Changes in net fair values of investments		
– Realised net gains and (losses)	162	205
– Unrealised net gains and (losses)	248	333
Total investment income	905	1,043
Represented by:		
Investment income on assets backing insurance liabilities	329	525
Investment income on equity holders' funds	576	518
	905	1,043
<b>(c) Other income</b>		
Fee based revenue	218	178
Net gain from disposal of property, plant and equipment	–	1
Total other income	218	179
<b>(d) Share of net profit of associate</b>		
	2	–
Total income	8,228	8,443

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## NOTE 4. SEGMENT REPORTING

### (a) Primary reporting – business segments

The Parent is a non-operating holding company operating only in Australia.

The Consolidated entity operated in the general insurance industry throughout the year. Revenue from the general insurance industry is derived from the underwriting of personal, commercial and international insurance businesses and these form separate reportable segments. The reportable segments comprise the following businesses (each insurance product is predominantly short-tail in duration except where noted):

- Australian personal insurance – the Australian personal insurance business develops and underwrites personal insurance products (through direct and indirect distribution channels), and manages claims and assessing services. Insurance products include motor vehicle, home and contents, compulsory third party (long-tail), consumer credit, and niche insurance products such as pleasure craft, veteran and classic car, boat, caravan, and travel insurance;
- Australian commercial insurance – the Australian commercial insurance business develops and underwrites insurance for businesses. Insurance products include commercial property, commercial motor and fleet motor, construction and engineering, farm, crop and livestock, home warranty, marine, public and product liability (long-tail), professional indemnity (long-tail), directors and officers (long-tail), and workers' compensation (long-tail);
- International insurance – comprises all direct insurance business underwritten outside Australia through foreign subsidiaries in New Zealand and Thailand and an associate in Malaysia, and the operations of the captive reinsurer;
- Corporate and investments – comprises other activities, including corporate services, investment management and investment of the Consolidated entity's capital funds.

The net outstanding claims liability for each segment includes an allocation of the diversification benefit incorporated into the risk margin relating to the combination of the segments at the Consolidated entity level. Depreciation expense is allocated to different business segments as management fees from the Corporate segment and so all depreciation relating to property, plant and equipment is treated as part of the Corporate segment.

	AUSTRALIAN PERSONAL INSURANCE	AUSTRALIAN COMMERCIAL INSURANCE	INTERNATIONAL INSURANCE	CORPORATE AND INVESTMENTS	INTERSEGMENT ELIMINATION	TOTAL
	2006 \$m	2006 \$m	2006 \$m	2006 \$m	2006 \$m	2006 \$m
External revenue	4,340	2,071	1,167	650	–	8,228
Intersegment revenue	–	–	240	–	(240)	–
Total revenue	4,340	2,071	1,407	650	(240)	8,228
Underwriting profit	287	235	11	–	–	533
Investment revenue net of investment fees – technical reserves	193	81	36	–	–	310
Insurance profit	480	316	47	–	–	843
Investment revenue net of investment fees – equity holders' funds	–	–	–	537	–	537
Share of net profit of associates	–	–	2	–	–	2
Other net operating result	–	8	(7)	(148)	–	(147)
Profit before income tax	480	324	42	389	–	1,235
Income tax expense						(373)
Profit for the year						862
Segment assets	5,951	3,702	777	6,542	–	16,972
Unallocated assets						–
Total assets						16,972
Segment liabilities	5,951	3,702	777	2,871	–	13,301
Unallocated liabilities						–
Total liabilities						13,301
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	–	–	–	158	–	158
Depreciation expense	20	13	5	9	–	47
Amortisation of acquired intangibles	–	–	–	8	–	8
Total depreciation and amortisation expense	20	13	5	17	–	55
Other non-cash expenses	45	25	9	9	–	88

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	AUSTRALIAN PERSONAL INSURANCE	AUSTRALIAN COMMERCIAL INSURANCE	INTERNATIONAL INSURANCE	CORPORATE AND INVESTMENTS	INTERSEGMENT ELIMINATION	TOTAL
	2005 \$m	2005 \$m	2005 \$m	2005 \$m	2005 \$m	2005 \$m
External revenue	4,552	2,102	1,193	596	–	8,443
Intersegment revenue	–	–	267	–	(267)	–
Total revenue	4,552	2,102	1,460	596	(267)	8,443
Underwriting profit	271	33	126	–	–	430
Investment revenue net of investment fees – technical reserves	303	179	34	–	–	516
Insurance profit	574	212	160	–	–	946
Investment revenue net of investment fees – equity holders' funds	–	–	–	500	–	500
Other net operating result	–	(14)	(5)	(142)	–	(161)
Profit before income tax	574	198	155	358	–	1,285
Income tax expense						(357)
Profit for the year						928
Segment assets	5,992	3,755	679	6,676	–	17,102
Unallocated assets						–
Total assets						17,102
Segment liabilities	5,992	3,755	679	2,173	–	12,599
Unallocated liabilities						–
Total liabilities						12,599
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	–	–	–	109	–	109
Depreciation expense	17	11	8	7	–	43
Amortisation of acquired intangibles	–	–	–	13	–	13
Total depreciation and amortisation expense	17	11	8	20	–	56
Other non-cash expenses	73	73	9	5	–	160

## (b) Secondary reporting – geographical segments

The Consolidated entity operates mainly in the Australian and New Zealand general insurance industry. In the Australian market the operations cover all states and territories. Australia and International (primarily New Zealand) markets are separate reportable geographical segments. There have been changes in the composition of the international geographic segment during the financial year (refer note 8).

	AUSTRALIA		INTERNATIONAL		INTERSEGMENT ELIMINATION		TOTAL	
	2006 \$m	2005 \$m	2006 \$m	2005 \$m	2006 \$m	2005 \$m	2006 \$m	2005 \$m
External revenue	6,928	7,196	1,300	1,247	–	–	8,228	8,443
Segment assets	15,649	15,791	2,929	2,187	(1,606)	(876)	16,972	17,102
Acquisitions of property, plant and equipment, intangibles and other non-current segment assets	71	93	87	16	–	–	158	109

## NOTE 5. EARNINGS PER SHARE

	CONSOLIDATED	
	2006 cents	2005 cents
<b>(a) Ordinary shares</b>		
Basic earnings per ordinary share <sup>(i)</sup>	47.87	49.31
Diluted earnings per ordinary share	47.59	49.00

(i) The basic earnings per ordinary share excludes the treasury shares held in trust from the denominator of the calculation, but includes earnings attributable to those shares in the numerator, to comply with AASB 133 *Earnings per Share*. If the amounts relating to those shares are excluded from both the numerator and denominator, the basic earnings per ordinary share for the year ended 30 June 2006 would be reduced to 47.60 cents (2005 – 49.07 cents).

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## NOTE 5. EARNINGS PER SHARE (CONTINUED)

	CONSOLIDATED	
	2006 \$m	2005 \$m
<b>(a) Ordinary shares (continued)</b>		
<i>(i) Reconciliation of earnings used in calculating earnings per share</i>		
Profit for the year	862	928
Profit attributable to minority interests	(103)	(117)
Profit attributable to equity holders of the Parent	759	811
Profit attributable to reset preference shares (refer note 6(b))	n/a	(29)
Earnings used in calculating basic and diluted earnings per share	759	782
	2006	2005
	Number of shares million	Number of shares million
<i>(ii) Reconciliation of weighted average number of ordinary shares used in calculating earnings per share</i>		
Ordinary shares on issue	1,595	1,594
Treasury shares held in trust	(9)	(9)
Weighted average number of ordinary shares used in the calculation of basic earnings per share	1,586	1,585
Weighted average number of dilutive potential ordinary shares relating to:		
– Rights issued under the Performance Share Rights Plan	–	2
– Unvested share based remuneration rights supported by treasury shares held in trust	9	8
Weighted average number of ordinary shares used in the calculation of diluted earnings per share	1,595	1,595

The following matters are relevant to the determination of the weighted average number of ordinary shares:

- The reset preference shares are not considered to be dilutive potential ordinary shares even though they may convert into ordinary shares because the contingent conversion conditions were not met at the reporting date.
- The reset exchangeable securities on issue are not considered to be dilutive potential ordinary shares because the contingent conversion conditions were not met at the reporting date.

### (b) Reset preference shares

While for accounting purposes the reset preference shares are presented as debt from 1 July 2005 onwards, they were previously presented as equity under Australian GAAP (refer to note 38 of the full financial report for further details). When presented as equity, a separate earnings per share calculation was conducted for the reset preference shares and the distributions on the shares was deducted from the profit attributable to equity holders of the Parent prior to calculation of the earnings per share for ordinary shares. From 1 July 2005 onwards the distributions are treated as finance costs and so are included in profit for the year. When presented as equity, the reset preference shares had a basic earnings per share for the year ended 30 June 2005 of 533.09 cents based on distributions paid or payable for the year of \$29 million and a weighted average number of reset preference shares outstanding during the period of 5.5 million shares.

## NOTE 6. DIVIDENDS

	Cents per share	Total amount \$m	Payment date	Tax rate for franking credit	Percentage franked
<b>(a) Ordinary shares</b>					
Recognised in year ended 30 June 2006					
Special dividend	12.5	201	26 June 2006	30%	100%
2006 interim dividend	13.5	215	10 April 2006	30%	100%
2005 final dividend	14.5	231	17 October 2005	30%	100%
		647			
Recognised in year ended 30 June 2005					
2005 interim dividend	12.0	191	18 April 2005	30%	100%
2004 final dividend	14.0	222	18 October 2004	30%	100%
		413			

It is standard practice to declare the dividend for a period after the relevant reporting date. In accordance with the relevant accounting policy a dividend is not accrued for until it is declared and so the dividends for a period are generally recognised and measured in the financial reporting period following the period to which the dividend relates.

A special dividend was paid to shareholders during the year as a return of excess capital in line with the commitment to ensure capital is managed efficiently. The total special dividend is presented inclusive of transaction costs of \$1.3 million.

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## (b) Dividend reinvestment

A Dividend Reinvestment Plan ("DRP") is operated which allows equity holders to elect to receive their dividend entitlement in the form of IAG shares. The price of DRP shares is the average share market price, less a discount if any (determined by the Directors) calculated over the pricing period (which is at least five trading days) as determined by the Directors for each dividend payment date. The price of DRP shares in 2006 includes no discount (2005 – no discount). The 29.5 million shares allocated to equity holders participating in the DRP for the year ended 30 June 2006 were purchased on-market (2005 – 20.0 million shares). This included 8.7 million shares relating to the special dividend.

## (c) Dividend not recognised at reporting date

In addition to the above dividends, the following dividend was declared after the reporting date but before finalisation of this financial report and has not been recognised in this financial report.

	Cents per share	Total amount \$m	Expected payment date	Tax rate for franking credit	Percentage franked
2006 final dividend – ordinary shares	16.0	255	9 October 2006	30%	100%

The dividend was declared on 25 August 2006. The last date for the receipt of an election notice for participation in the dividend reinvestment plan in relation to this final dividend is 6 September 2006. The DRP will operate using shares acquired on-market with no discount applied.

	Distribution percentage per annum	Total amount \$m	Payment date	Percentage franked
<b>(d) Reset preference shares</b>				
Recognised in year ended 30 June 2006	*n/a	*n/a	*n/a	*n/a
Recognised in year ended 30 June 2005				
First issue June 2002 - IAGPA	5.80%	20	15 June 2005 and 15 December 2004	100%
Second issue June 2003 - IAGPB	4.51%	9	15 June 2005 and 15 December 2004	100%
		29		

\* This item has been treated differently in the current reporting period following the election to not restate comparatives for certain accounting standards as allowed upon first time adoption of AIFRS.

All of the distributions paid in relation to the reset preference shares for the current annual reporting period and the previous annual reporting period were fully franked at 30%.

## (e) Restrictions that may limit the payment of dividends

There are presently no restrictions on the payment of dividends by the Parent other than:

- The payment of dividends generally being limited to profits subject to ongoing solvency obligations; and
- No dividends can be paid and no returns of capital can be made on ordinary shares, if distributions are not paid on the reset preference shares, unless certain actions are taken by IAG. For further details refer to note 23 of the full financial report.

There are presently no restrictions on the payment of dividends from subsidiaries to the Parent other than:

- The payment of dividends generally being limited to profits subject to ongoing solvency obligations of the subsidiary; and
- For certain subsidiaries, statutory reserve and regulatory minimum capital requirements, in particular, the Australian Prudential Regulation Authority has advised Australian general insurers that a general insurer under its supervision must obtain approval from it before declaring a dividend if the general insurer has incurred a loss, or proposes to pay dividends which exceed the level of profits earned in the current period.

The impact to these requirements caused by the payment of dividends is monitored. Payments of dividends from overseas subsidiaries may attract withholding taxes which have not been provided for in this financial report.

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## NOTE 7. RECONCILIATION OF TOTAL EQUITY

	CONSOLIDATED			
	2006 Number of shares million	2005 Number of shares million	2006 \$m	2005 \$m
<b>(a) Share capital</b>				
<i>Ordinary shares</i>				
Balance at the beginning of the financial year	1,594	1,591	3,263	3,263
Shares issued under Performance Share Rights Plan	1	3	–	–
Balance at the end of the financial year	1,595	1,594	3,263	3,263
<i>Reset preference shares</i>				
Balance at the end of the previous financial year	6	6	539	539
AIFRS transition adjustments at 1 July 2005				
– Reclassification of reset preference shares	(6)	–	(550)	–
– Reclassification of capitalised transaction costs	–	–	11	–
Balance at the beginning and end of the financial year	–	6	–	539
Total share capital at the end of the financial year	1,595	1,600	3,263	3,802

	CONSOLIDATED	
	2006 \$m	2005 \$m
<b>(a) Share capital</b> (refer above)	3,263	3,802
<b>(b) Treasury shares held in trust</b>		
Balance at the beginning of the financial year	(34)	(21)
Acquisition of shares	(19)	(13)
Shares vested and / or released to participants	13	–*
Balance at the end of the financial year	(40)	(34)
<b>(c) Reserves</b>		
<i>Foreign currency translation reserve</i>		
Balance at the beginning of the financial year	(6)	(5)
Net exchange difference on translation of foreign operations	(18)	(1)
Hedge of net investment in a subsidiary	9	–
Balance at the end of the financial year	(15)	(6)
<i>Share based remuneration reserve</i>		
Balance at the beginning of the financial year	13	5
Charged to profit for the year	19	8
Transfers from the reserve upon vesting of rights / shares	(13)	–
Balance at the end of the financial year	19	13

\* Rounds to zero.

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	CONSOLIDATED	
	2006 \$m	2005 \$m
<i>Hedging reserve</i>		
Balance at the end of the previous financial year	-	-
AIFRS transition adjustments at 1 July 2005		
– Recognition of cash flow hedges, net of tax	(5)	-
Balance at the beginning of the financial year	(5)	-
Movements in fair value of derivatives forming hedge	1	-
Movements in fair value recycled to profit	(8)	-
Net tax impact on movements	2	-
Balance at the end of the financial year	(10)	-
<i>Other reserve</i>		
Balance at the beginning of the financial year	-	-
Additions during the year	-*	-
Balance at the end of the financial year	-*	-
Total reserves	(6)	7
<b>(d) Retained earnings</b>		
Balance at the end of previous financial year	142	(227)
Net total AIFRS transition adjustments at 1 July 2005	(5)	-
Adjustment for Safety Insurance at 1 July 2005	5	-
Balance at the beginning of the financial year	142	(227)
Profit attributable to equity holders of the Parent	759	811
Actuarial gains / (losses) on defined benefit plans, net of tax	21	-*
Vesting of share based remuneration	(1)	-
Dividends declared and paid	(647)	(442)
Balance at the end of the financial year	274	142
Parent interest	3,491	3,917
<b>(e) Minority interests</b>		
Balance at the end of previous financial year	586	689
AIFRS transition adjustments		
– Reclassification of minority interests in unitholders' funds	(421)	-
– Net impact of other AIFRS transition adjustments at 1 July 2005	(1)	-
Balance at the beginning of the financial year	164	689
Profit attributable to minority interests	103	117
Distributions to minority interests	(89)	(120)
Other movements in unitholders' funds	-	(100)
Business combination	2	-
Balance at the end of the financial year	180	586
Minority interests comprising:		
– Share capital	126	124
– Retained profits	54	41
– Foreign currency translation reserve	-*	-
– Unitholders' funds	-	421
Minority interests	180	586
Total equity	3,671	4,503

\* Rounds to zero.

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## NOTE 8. ACQUISITIONS AND DISPOSALS OF BUSINESSES

### 2006

#### (a) Acquisition of subsidiaries

##### (i) Acquisition of a Thailand based general insurance business

The Consolidated entity acquired all of the ordinary shares in IAG Insurance (Thailand) Ltd ("IAG Thailand") (formerly Royal and Sun Insurance Alliance (Thailand) Ltd) effective 4 July 2005. This subsidiary is involved in general insurance underwriting in Thailand.

The key changes made to bring the financial report of IAG Thailand prepared in accordance with Thai GAAP to comply with the significant accounting policies of the Consolidated entity related to an analysis of all insurance products on offer to confirm the status as insurance contracts, the measurement of all investments at fair value through profit or loss, and the alignment of reserving policies. After those adjustments were made, there were no significant fair value adjustments required.

##### (ii) Acquisition of a further interest in a Thailand based listed general insurance business

On 10 February 2006, an additional 16.7% interest was acquired in Safety Insurance Public Company Limited (Safety Insurance) taking the then 21.6% shareholding to 38.3%. A general tender offer to all Safety Insurance shareholders was subsequently lodged at the end of February 2006. The tender closed on 27 March 2006 with the Consolidated entity holding 96.09% of the voting share capital. The entity has been deemed to be a subsidiary from 31 March 2006.

Safety Insurance, which has been listed on the Stock Exchange of Thailand since 1977, is Thailand's 7th largest general insurer and 6th largest motor insurer and currently generates approximately A\$100 million in gross written premium per annum. Providing predominantly motor insurance, as well as fire, marine and other general insurance, Safety Insurance distributes its products through insurance agents and brokers, as well as selling direct to customers.

The key changes made to bring the financial report of Safety Insurance prepared in accordance with Thai GAAP to comply with the significant accounting policies of the Consolidated entity related to an analysis of all insurance products on offer to confirm the status as insurance contracts, the measurement of all investments at fair value through profit or loss, and the alignment of reserving policies. After those adjustments were made, there were no significant fair value adjustments required.

##### (iii) Acquisition of a specialist New Zealand underwriter

On 3 May 2006 IAG New Zealand Limited acquired a 51% share of Driveright Limited, a specialist underwriter of mechanical breakdown insurance in New Zealand, with a contractual obligation, subject to certain criteria being satisfied, to acquire the remaining 49% on or before 31 August 2008.

	CONSOLIDATED		
	Driveright \$m	Safety Insurance \$m	IAG Insurance (Thailand) \$m
Details of the 2006 acquisitions of subsidiaries are as follows:			
Purchase price:			
Cash paid	4	68	34
Costs directly associated with acquisition	-	2	2
<b>Total purchase consideration</b>	<b>4</b>	<b>70</b>	<b>36</b>
Fair value of net identifiable assets acquired:			
Cash and cash equivalents	2	10	6
Investments	-	107	18
Receivables	-	30	22
Deferred acquisition costs	-	-	1
Property, plant and equipment	-	9	1
Deferred tax assets	-	8	-
Payables	(1)	(19)	(18)
Current tax liabilities	-	(3)	(1)
Unearned premium liability	-	(58)	(5)
Outstanding claims liability	-	(30)	(14)
Less: minority interests	-	(2)	-
Less: transfer of associate to subsidiary	-	(11)	-
<b>Net identifiable assets acquired during the financial year</b>	<b>1</b>	<b>41</b>	<b>10</b>
Goodwill*	3	29	21
Intangible	-	-	5
	<b>3</b>	<b>29</b>	<b>26</b>

\* The goodwill on Safety Insurance includes the goodwill amount on the first acquisition in 1998 (which rounded to zero).

The goodwill is attributable to the synergies expected to arise after the acquisition. The fair value of assets and liabilities are based on discounted cash flow models. No restructuring provisions were created. In addition to the intangible assets recognised and disclosed in the table above, there are other intangible benefits that have been acquired as part of the transactions. These benefits have not been recognised separately from goodwill because they were not separately recognisable and / or were not able to be reliably measured.

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	CONSOLIDATED		
	Driveright \$m	Safety Insurance \$m	IAG Insurance (Thailand) \$m
The net cash flow in relation to the acquisitions is as follows:			
Cash consideration paid	4	70	36
Cash balance acquired	(2)	(10)	(6)
Net outflow of cash	2	60	30
Contribution from the acquired businesses (from date of acquisition):			
Income	–	28	37
Profit before tax	–	1	1

The gross written premium and profit of the Consolidated entity for the year ended 30 June 2006 would have been higher by \$63 million and \$3 million respectively, had the subsidiaries acquired during the year been consolidated from the beginning of the financial year.

## 2005

During the year ended 30 June 2005 the Consolidated entity made the following acquisitions:

- Mike Henry Travel Insurance Limited: 50.1% acquired on 6 July 2004 for \$4 million with a contractual obligation to purchase remaining equity on or before 1 July 2006;
- Clipper Club Underwriters Limited: 100% acquired on 1 January 2005 for \$1 million; and
- National Auto Club Underwriters Agency (NZ) Limited: 100% acquired on 1 January 2005 for \$6 million.

The total outlay for these acquisitions in 2005 (net of cash acquired) was \$7 million. As these acquisitions are not significant to the Consolidated entity no further disclosure is provided.

### (b) Other acquisitions

#### (i) Acquisition of an interest in a Malaysian based composite insurance business

On 31 March 2006, the Company acquired a 30% strategic stake in AmAssurance Berhad, a Malaysian based general and life insurer. Based on the annual report for the year ended 31 March 2006 prepared under Malaysian generally accepted accounting standards, AmAssurance Berhad has gross assets of RM1,783 million (approximately A\$653 million). The general insurance operations generate an annual gross written premium of RM438 million (approximately A\$161 million).

#### (ii) Lloyd's managing agency and specialist Asian syndicate

In June 2006, the Consolidated entity agreed to acquire a newly-formed Lloyd's managing agency and specialist Asian syndicate to support the development and management of its expanding Asian business. The businesses operate as Alba Group Pte Limited and have been newly established. The syndicate has access to all markets in which Lloyd's is licensed. The terms of the acquisition are confidential but neither the purchase price nor the capital required in the first two years from completion is material to the Consolidated entity. A letter of credit was issued in support of the Consolidated entity's participation. The terms of the acquisition are subject to final regulatory approval from the relevant regulatory authorities in Singapore and the United Kingdom.

### (c) Disposals of subsidiaries

During the year the Consolidated entity disposed of New Zealand Car Parts Limited. As this disposal was not significant to the Consolidated entity no further disclosure is provided.

There were no disposals of businesses by the Consolidated entity during the year ended 30 June 2005.

# NOTES TO THE CONCISE FINANCIAL STATEMENTS

for the year ended 30 June 2006

## NOTE 9. CONTINGENCIES

Contingent liabilities are not recognised on the balance sheet but are disclosed here, unless the possibility of settlement is remote, in which case no disclosure is made. If settlement becomes probable, a provision is recognised. The best estimate of the settlement amount is used in measuring a contingent liability for disclosure.

### (a) Contingent liabilities

In the normal course of business, transactions are entered into that may generate a range of contingent liabilities. These include:

- (i) litigation arising out of insurance policies;
- (ii) various types of investment contracts including forward foreign exchange contracts, financial futures, interest rate swaps, exchange traded options, forward rate agreements and other underwriting subscription contracts, usually as part of the management of the Consolidated entity's investment portfolios;
- (iii) undertakings for maintenance of net worth and liquidity support to subsidiaries in the Consolidated entity. It is normal practice to provide wholly-owned subsidiaries with support and assistance as may be appropriate with a view to enabling them to meet their obligations and to maintain their good standing. Such undertakings constitute a statement of present intent only and are not intended to give rise to any binding legal obligation; and
- (iv) guarantees for performance obligations, including a letter of credit issued in support of the Consolidated entity's participation in Lloyd's of London.

The Directors do not believe there are any other potential material exposures to the Consolidated entity and know of no event that would require it to satisfy the guarantees or take action under a support agreement.

### (b) Reset exchangeable securities

In respect of the issue of reset exchangeable securities ("RES") by a wholly-owned subsidiary, IAG Finance (New Zealand) Limited ("IAGF NZ"):

- (i) IAGF NZ has granted to Permanent Trustee Company Limited ("Trustee"), the trustee of the RES, a fixed charge over its right, title and interest in the payments to it under the Portfolio Management Agreement and certain intragroup receivables. IAG Portfolio Limited, a wholly-owned subsidiary of IAG, has granted to the Trustee a mortgage over IAG Portfolio Limited's portfolio of investments ("Portfolio") and a floating charge over its rights, property and undertaking as security to the RES holders.
- (ii) Insurance Australia Limited has put in place an interest rate floor with IAG Portfolio Limited in the event the bank bill rate applicable to the calculation of the interest rate payable on the RES falls below a specified rate. This will enable IAG Portfolio Limited to generate sufficient income to allow IAGF NZ to make part or full interest payments on the RES.
- (iii) In the event of an interest payment on the RES being unfranked, IAG must pay an amount into IAG Portfolio Limited to fund a gross-up of the interest payment on the RES.
- (iv) IAG may exchange some or all of the RES for preference shares issued by IAG at any time. This exchange right is considered an embedded derivative within the RES and is recognised at fair value on the balance sheet. The exchange right has been assessed as having a fair value of nil at 30 June 2006.
- (v) IAGF NZ may, in relation to the RES, change their terms, redeem them for cash or convert them into ordinary shares issued by IAG on any reset date. The next reset date is 15 March 2010.

(vi) IAGF NZ may, in relation to the RES, redeem them for cash or convert them into ordinary shares issued by IAG, if a tax event, regulatory event or acquisition event, as defined in the RES terms, occurs.

(vii) RES holders may redeem the RES on any reset date or if a trigger event, as defined in the RES terms, occurs.

(viii) IAG has an obligation to pay all costs, charges and expenses in managing the Portfolio including costs of the trustee and custodian.

(ix) IAG and other members of the IAG Group may be entitled to any surplus in the Portfolio from excess income from the Portfolio after the payment of aggregate interest payments on the RES or from excess net assets of the Portfolio after the payment of aggregate redemption amounts on the RES.

### (c) Fiduciary activities

The Consolidated entity's fiduciary activities consist of investment management and other fiduciary activities conducted as manager, custodian or trustee for a number of investments and trusts. The funds managed on behalf of third parties which are not included in the Consolidated entity's balance sheet had a fair value as at 30 June 2006 of \$1,969 million (2005 – \$2,920 million). This does not include the investment by third parties in the IAG Asset Management Wholesale Trusts presented as minority interests in unitholders' funds on the balance sheet. The Consolidated entity is exposed to operational risk relating to managing these funds on behalf of third parties.

## NOTE 10. EVENTS SUBSEQUENT TO REPORTING DATE

As the following transactions occurred after reporting date and did not relate to conditions existing at reporting date, no account has been taken of them in the financial statements for the year ended 30 June 2006.

### (a) Declaration of final dividend

On 25 August 2006, a final dividend of 16.0 cents per share, 100% franked, was declared by the Company. The dividend will be paid on 9 October 2006.

### (b) Progress of negotiations with a China based general insurance business

IAG announced on 7 February 2006 that it had signed a memorandum of understanding with a view to acquiring 24.9% of China Pacific Property Insurance Co., Ltd. ("CPPI"). IAG announced on 3 July 2006 that draft transaction agreements had been confirmed for the purposes of lodgement with the China Insurance Regulatory Commission for preliminary review. Under the terms of the draft transaction agreements, IAG will acquire 24.9% of CPPI for approximately \$350 – 375 million.

The parties intend to proceed to signing the transaction agreements as soon as possible following formal approval by relevant regulators.