



10 March 2004

Manager, Company Announcements Office
Australian Stock Exchange Limited
Level 4, Exchange Centre
20 Bridge Street
SYDNEY NSW 2000

Dear Sir/Madam

INSURANCE AUSTRALIA GROUP LIMITED ('IAG')

INTERIM REPORT 2004

In accordance with Listing Rule 3.17, please find enclosed Interim Report 2004, which is to be sent to IAG shareholders from today.

Yours sincerely

A handwritten signature in black ink that reads "Anne O'Driscoll". The signature is written in a cursive style with a large, looped 'O'.

Anne O'Driscoll
**Group Company Secretary &
Head of Investor Relations**

Attachment (2 pages)



SGIO

SGIC



swann insurance

STATE

N4

FINANCIAL HIGHLIGHTS

Results for the six months ended 31 December 2003 compared to the previous corresponding six month period, bearing in mind the impact of the CGU and NZI acquisition on trend comparisons.

\$302m

Net profit after tax increased to \$302m, mainly due to the acquisition of CGU/NZI and upturn in equity markets.

\$2,912m

Net earned premium increased to \$2,912m following the acquisition of CGU/NZI.

\$277m

Underwriting result increased to \$277m from \$71m.

\$344m

Insurance profit increased to \$344m from \$290m.

\$204m

Investment income on shareholders funds increased to \$204m from a loss of \$129m following the best equity market returns in three years.

11.8%

Insurance margin of 11.8% was within target range of 9%-12%.

8c

Interim dividend increased to 8c from 4.5c in line with our new dividend policy (see details inside).

GROUP DIRECTORY

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Group Company Secretary

Anne O'Driscoll FCA, ANZIIIF (Fellow)

Insurance Australia Group Limited
ABN 60 090 739 923



Interim report
for shareholders 2004



FINANCIAL PERFORMANCE

FINANCIAL POSITION

	As at 31 Dec 2002 \$bn	As at 31 Dec 2003 \$bn
Investments	8.9	11.1
Other assets	2.3	4.3
Intangibles	0.6	1.5
Total assets	11.8	16.9
Claims provisions and unearned premium	5.7	9.5
Borrowings and other liabilities	2.3	3.1
Total liabilities	8.0	12.6
Net assets	3.8	4.3
Equity attributable to IAG shareholders	3.3	3.7
Outside equity interests	0.5	0.5
Total equity	3.8	4.3

FINANCIAL PERFORMANCE

	6 months ended 31 Dec 2002 A\$m	6 months ended 31 Dec 2003 A\$m
Net premium revenue	1,799	2,912
Net claims expense	1,382	1,909
Underwriting expenses	346	726
Underwriting profit/(loss)	71	277
Insurance profit	290	344
Net profit attributable to shareholders	62	302

MESSAGE FROM THE CHAIRMAN AND CEO



We are pleased to report Insurance Australia Group delivered a strong result for the first half of the 2004 financial year. This result confirms our position as Australasia's leading general insurance group and demonstrates our ability to provide shareholders with quality, sustainable returns.

Our strong performance reflects the increased scale of the business following the acquisition of CGU and NZI, as well as the considerable improvement in equity markets, and enhancements made to our underlying business during the period.

The acquisition of CGU and NZI has added approximately \$2.5 billion in annual revenue to our business and provides us with a wider range of products, a greater presence in all markets and more distribution channels through which to help our customers. We now insure approximately \$900 billion of our customers' assets in Australia and New Zealand. This scale and diversification has improved the Group's ability to produce stable returns despite fluctuations in individual portfolios or regions.

At the same time, we've benefited from the best equity market returns in three years. Australian equities were up 11.3% (ASX 200 Accumulation Index) and international equities rose by 6.6% (MSCI World Index ex Australia), compared with falls of 4.5% and 12.5%, respectively, in the previous corresponding period. As a result, our investment return on shareholders' funds increased to a pre-tax profit of \$204 million from a pre-tax loss of \$129 million in the previous corresponding period. That's an improvement of \$333 million and marks our highest half year return since listing.

During the period we delivered on a key element of our strategy – focusing on our core business of general insurance – with the sale of our health insurance underwriting operations and the agreement to sell ClearView Retirement Solutions.

In addition, the integration of CGU and NZI is ahead of schedule and the acquisition is now earnings per share positive six months earlier than expected. As at 31 December 2003, we've ensured we will deliver \$117 million of the \$160 million in synergies promised at the time of the acquisition and are on-track to deliver the balance by 30 June 2004. Our six month result includes synergies of \$33 million and implementation costs of \$25 million.

We've also continued to improve our underlying business which has seen us sustain high levels of customer retention and satisfaction. All major business segments performed strongly, producing a Group result within stated target operating ranges for the full year.

The insurance margin of 11.8% is at the upper end of our 9%-12% full year target range. It's a decrease from 16.1% in the previous corresponding period, which we indicated at the time was unsustainable due to benefits from the bond rally and unusually dry weather contributing to a benign claims environment.

The Group combined operating ratio of 90.5% is ahead of the 96% achieved in the previous corresponding period. The immunised combined operating ratio (taking into consideration the effect of discount rate changes to outstanding claims reserves) is 93.8% in line with the full year target of 93%-96%.

Despite the growth of the business, Group corporate expenses remained at a similar level compared with the previous corresponding period. This confirms the Group's ability to manage its expanded business more efficiently.

CHANGES TO DIVIDEND POLICY AND CAPITAL STRUCTURE

The enhanced diversity and scale of the business has created a less volatile profit stream, and better utilisation of the capital employed in the business.

As a result, and in line with our commitment to pass on value to shareholders, the Board has decided to increase the target dividend payout ratio from 40%-70% (after goodwill amortisation) to 50%-70% of normalised profits before goodwill amortisation. We expect the total annual dividend will now be paid in a 45:55 proportion between the interim and final dividends, compared with the previous 40:60 split.

Applying the new policy the Board has declared a fully franked interim dividend of 8 cents per ordinary share, up from 4.5 cents in the previous corresponding period. The dividend is to be paid on 19 April 2004 to ordinary shareholders registered on 17 March 2004.

In addition, in view of our strong capital position we intend to undertake an off-market buy-back of around \$350 million of ordinary shares later this year. The Board is currently assessing the terms and timing of the proposed buy-back and will advise shareholders once the details are finalised.

HELPING TO MAKE COMMUNITIES SAFER

Our business is to pay claims as quickly as possible. But we don't stop there. We look for practical opportunities to help our communities reduce the risk of accidents, catastrophes and other insurable events happening in the first place. In the past six months, we have established crime prevention programmes with local councils and police, awarded CommunityHelp grants to support projects that make communities safer, and continued our partnerships with St John Ambulance, NRMA CareFlight and the Salvation Army Emergency Service.

OUTLOOK

We are pleased to report that we are on track to deliver on operating targets set for the full year, based on continuing good economic conditions and barring no major insured catastrophes beyond the allowances in our budgets.

Operating within our target ranges should enable us to maintain an insurance margin of 9%-12% over the long term, however in the short term we may exceed 12%. Our target range benchmarks well against international performance.

Ultimately, our goal remains to deliver a return on equity of 13%-15% throughout any cycle. Achieving this goal means we can deliver solid returns to our shareholders, maintain insurance at fair rates for customers, and sustain the financial strength to withstand major insured catastrophes.

We look forward to reporting to you on our progress, and thank you for your continued support.

James Strong
Chairman

Michael Hawker
CEO



James Strong,
Chairman.

“During the year we delivered on a key element of our strategy – focusing on our core business of general insurance.”



Michael Hawker,
Chief Executive Officer.

“We've also continued to improve our underlying business, which has seen us sustain high levels of customer retention and satisfaction.”