

the chairman, Nicholas Whitlam, and the
managing director and chief executive officer, Eric Dodd

focus



Introduction

The 1999/2000 financial year was a momentous year in the history of NRMA Insurance. It was the year that members voted in favour of demutualising the largest general insurance company in Australia, resulting in the public listing of NRMA Insurance Group Limited on the Australian Stock Exchange (ASX).

On 8 August 2000, NRMA Insurance Group Limited listed on the ASX and became one of the top 30 companies by market capitalisation. NRMA Insurance Group Limited boasts the second largest retail shareholder base in Australia comprised of 1.6 million retail shareholders, including as many as 300,000 first time share owners. Our shareholder base also includes Australia's and some of the world's top fund managers and investment houses.

To all of our new shareholders, we say welcome.

Results

The operating profit before abnormal item and income tax was \$455.8 million for the year to 30 June 2000. This was up from \$432.0 million last year and represents 5.5% growth over the previous year. The company recorded a post-tax return on average equity of 11%.

After abnormal item relating to the recognition of deferred acquisition costs for the general insurance business, the net operating profit after abnormal item and income tax was \$396.5 million. The net result attributable to members was \$296.4 million, up 17% on last year's result. Gross written premium was up 19.7% or \$434 million on the previous year to \$2.6 billion.

The result continued to realise the aspirations of the NRMA Insurance Group's growth strategy. As forecast in the recent prospectus, the contributions from SGIO/SGIC and RACV are manifest in this result. Markedly higher gross written premium, diversification benefits, scale advantages and IT improvements underpin this result.

Review of Operations

With approximately 6.8 million policies in force, NRMA Insurance Limited maintained its leading market share in Australia in the general insurance business.

The comprehensive motor vehicle policy book in NSW and Victoria reported lower than expected net results for the year as a result of an increase in cost of claims. This is predominantly due to a high volume of collision and theft claims, the Sydney hailstorm in April 1999 (which itself was the largest natural disaster, in financial terms, in Australia's recorded history) and the impact of the depreciation of the Australian dollar on imported parts. Underwriting, pricing and claims initiatives planned for the 2000/2001 year are expected to reduce the average cost of claims.

Initiatives aimed at improving customer convenience and service levels should also contribute to strong performance in the coming year.

We are pleased to report that penetration levels of the NRMA Insurance's Financial Services products into the existing customer base reached approximately 13%, compared with over 4% during the previous financial year, progressively delivering a key element of our corporate strategy.

Our inwards reinsurance portfolio was scaled down and completely re-underwritten for 1999/2000. However, as the majority of our business starts at a common renewal date of 1 January,

any corrective action takes time to flow through to the results. This fact, coupled with a costly year for the insurance and reinsurance markets worldwide, has caused another disappointing, but improved, result for this year. Further corrective measures have been taken by markets throughout the world (and by reinsurers particularly) which have improved the risk/return ratios considerably and given renewed confidence in the portfolio going forward.

Highlights

Last year, we articulated a corporate strategy which included establishing and consolidating a national business base, expanding our financial services product offering and growing our eCommerce business. Our performance this year shows some success in implementing this strategy.

During the year, national expansion of our product range was realised. SGIC Health was rebadged NRMA Health and was extended into NSW with over 21,000 policies on issue in the first four months of its launch.

NRMA Insurance's Financial Services products took their place in the South Australian market, and our compulsory third party insurance was launched in Queensland. Additionally, NRMA Insurance rolled out SGIO's Commercial Insurance policies in NSW for the small to medium enterprise market.

The National Product Platform, enabled by using advanced technology, brought operational life to the alliance with RACV and laid the foundation for the NRMA Insurance Group's new retail/wholesale business model.

While the immediate focus is on national expansion and consolidation of our successful acquisitions and alliances of the past two years, we have started to develop a small international business with two overseas alliances. NRMA Insurance bought a 20% interest in Safety Insurance in Thailand, and the success of this venture is reflected in the 1999/2000 financial results. Additionally, NRMA Insurance launched its joint venture with CAA, China's biggest automobile club, located in Beijing.

It was also the year when the Board of NRMA Insurance Limited approved, and the executive management team implemented, a comprehensive eCommerce strategy which focuses on three main components: enhancing customer propositions; streamlining staff and internal processes; and creating opportunities for business to business activities.

Since December, a number of key eCommerce initiatives have been implemented: the website was redesigned and launched; customers were given the capacity to carry out their renewals online; and an IPO/Shareholder website was launched. Internal initiatives include the rollout of Lotus Notes to Head Office staff, the implementation of a corporate intranet and the delivery of an automated remuneration review process.

Internal Activities

The organisation is going through a major shift in corporate culture as a result of the many changes we have undertaken this year, and enormous effort and progress have been made to keep staff informed and excited about our vision for the future.

Perhaps the best illustration of communicating change and direction to our staff was a program launched in October 1999 by NRMA Insurance called 'WAGS', which stands for 'We Are Going Somewhere'. The WAGS communications program is presented by staff for staff and is designed to promote discussions about the NRMA Insurance Group's long term vision, business goals and the key business strategies.

The Year Ahead

The general insurance sector in Australia is currently undergoing substantial change and is at a stage in the cycle which presents considerable business opportunities. Premium rates are experiencing a cyclical hardening after a period of slower premium income growth. This is coinciding with the ongoing consolidation opportunities within the Australian general insurance market. The NRMA Insurance Group, with its number one market position and superior balance sheet strength, remains a leading player in this consolidation.

Our corporate aspirations remain in place, particularly through the expansion of the Financial Services business. This will occur through a combination of acquisitions, alliances, new distribution arrangements and the provision of simple products through our existing distribution channels.

We will also continue to look at opportunities to expand our range of general insurance products nationally, and significant emphasis will be placed on the cross-offering of key insurance products to our existing customer base.

The NRMA Insurance Group will remain committed to providing the highest level of service performance to our customers and shareholders alike.

Throughout the coming year, we plan the overall strengthening of the NRMA Insurance Group, in line with our corporate strategy, as well as the projected improvements to revenue and profitability. We expect our 2000/2001 performance to be in line with forecasts in the prospectus, and we will focus on shareholder value.

Finally, let us record our sincere thanks to NRMA Insurance Group employees for their contributions and dedication in what has been an immensely challenging and significant year.

Nicholas Whitlam
Chairman

Eric Dodd
Managing Director
and Chief Executive Officer