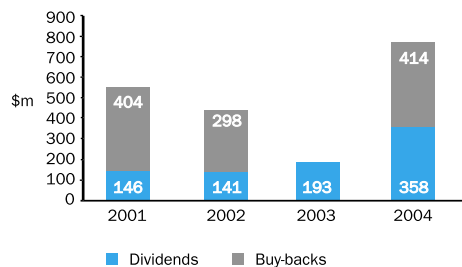
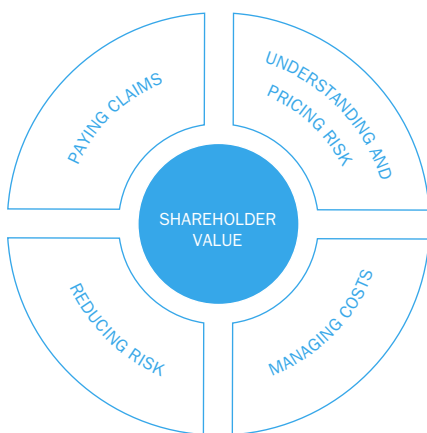


# THE VALUE AT THE CENTRE

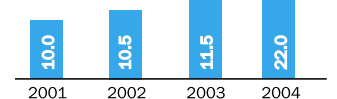


IAG Chairman, **James Strong**

The four principles outlined in the opening pages of this Annual Report do not only represent an unwavering commitment to our customers, they are also the foundation upon which our continued financial prosperity will be built. By honouring these principles, we aim to earn our customers' loyalty, build trust and respect in the wider community, provide a rewarding work environment for our people and create value for our shareholders. Evidence that this strategy is working can be seen in this year's result.



**CASH RETURNED TO ORDINARY SHAREHOLDERS IN RELATION TO THE YEAR ENDED 30 JUNE**



**DIVIDENDS PER ORDINARY SHARE IN RELATION TO THE YEAR ENDED 30 JUNE (cents per share)**

## DELIVERING ON EXPECTATIONS

During a year of consolidation, Insurance Australia Group once again demonstrated its ability to provide shareholders with quality returns, and achieved all Group financial and operating targets.

We recorded a net profit attributable to shareholders of \$665 million, compared with \$153 million in the previous year. Our improved profit reflects the increased scale of our business following our acquisition of CGU and NZI in January 2003, improvements in our underlying performance, and a pre-tax investment return of \$434 million on shareholders' funds.

Our investment result was driven by the best equity market performance in three years and is the highest return we have achieved since listing in August 2000.

## INCREASED DIVIDENDS

In recognition of our strong financial position and in line with our commitment to pass on value to shareholders, your Board has increased the target dividend payout ratio from 40%–70% of normalised profit after goodwill amortisation, to 50%–70% of normalised profit before goodwill amortisation.

Applying the new policy, we will pay a fully franked final dividend of 14 cents per ordinary share, on 18 October 2004. This brings our total dividend for the year to 22 cents per ordinary share, a 91% increase on the previous year.

In addition, we now plan to pay the total annual dividend in a 45:55 proportion between the interim and final dividends, compared with the 40:60 proportion we have applied since we listed in 2000.

The Group is targeting growth of at least 10% per annum in dividends per ordinary share going forward.

## SHARE PRICE PERFORMANCE

Our achievements have been rewarded with solid share price performance. An investment in IAG ordinary shares outperformed the Australian All Ordinaries Index and inflation by growing 47% over the past financial year. Including dividends, total shareholder return was 51%. Since we listed four years ago, the aggregate total shareholder return has been about 100%, including the final dividend of 14 cents per share for 2004.

At 30 June 2004, we had a market capitalisation of \$8 billion, an increase of 39% from last year, making us the 18th largest company on the Australian Stock Exchange.

## CAPITAL MANAGEMENT INITIATIVES

We continued to actively manage our capital during the year, in line with our commitment to ensure it is administered in the most efficient manner.

We undertook an off-market share buy-back that was successfully completed in June 2004. We bought back 5.6% of the Group's ordinary shares on issue for a total of \$414 million. The buy-back achieved a very efficient purchase price for the Group and, over time, is expected to increase our earnings per share and return on equity.

Following the buy-back, we remain strongly capitalised. The Group's capital adequacy multiple at 30 June 2004 was around 1.75 times the Australian Prudential Regulation Authority's (APRA) minimum capital requirement. We believe this is an important prudential measure and we

actively seek to maintain our capital adequacy at a healthy margin above the regulatory requirement.

Importantly, we maintained our very strong 'AA' Standard & Poor's (S&P) insurer financial strength ratings for our key operating entities, currently the highest S&P rating of any Australian-based financial institution.

## CORPORATE GOVERNANCE

We take seriously the importance of robust governance to ensure discipline and enable consistency in performance and to protect the interests of shareholders and customers. While we believe this starts with the Board, our intention is to embed our principles of governance and risk management into the culture of our people, building on a structure of integrity and performance in every corner of our organisation.

To enable a sound framework for decision-making, the Board is supported by three key Committees – the Nomination, Remuneration & Corporate Governance Committee, the Audit Committee and the Risk Management & Compliance Committee – which meet regularly to consider Insurance Australia Group's audit process, investments, remuneration, compliance and other matters. The roles of these committees and their activities during the year are outlined in the Corporate Governance section starting on page 32. All committee charters are published on [www.iag.com.au](http://www.iag.com.au).

We continued to monitor corporate governance developments and spent considerable time meeting the challenges of increased regulation, compliance and changing legislative requirements. Importantly, the Federal Government's CLERP 9 legislation became law on 1 July 2004 and we were prepared to quickly adopt the new requirements. Similarly, we are actively participating in APRA's ongoing policy review in relation to disclosure, actuarial and audit standards supervision. We are preparing to adopt the new Australian equivalent to International Financial Reporting Standards as they are introduced.

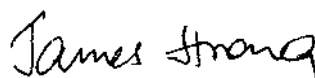
As indicated last year, we phased out the retirement benefit scheme for new Non-executive Directors, and we introduced a new tenure policy for Non-executive Directors to ensure we have relevant experience and independence on our Board.

## OUR FUTURE PRIORITIES

The strength of our result confirms the effectiveness of the Group's strategy. On behalf of the Board, I congratulate CEO Michael Hawker and his management team on another successful year, and thank them for their significant contribution.

I can assure you we remain focused on our priorities. Our intention is to optimise our already strong franchises in Australia and New Zealand by continually improving our customer service and efficiency, and responsibly using our scale in those markets. We will also work to identify and pursue new growth opportunities offshore.

We understand very clearly that our business can be impacted by many factors and our ongoing success will be determined by our ability to anticipate and respond to those challenges.



**James Strong**  
Chairman