



WE'RE HERE TO HELP On 3 December 2003, disaster struck Melbourne with the worst storm to hit the city in more than 30 years. One customer, an MS sufferer, awoke to find her house flooded. Her dog was swimming in the lounge room. Our assessor was shocked by the damage and worked closely with our customer on her claim. The two still keep in contact. "It's not just a job", our assessor said. "These people have suffered and you feel for them."

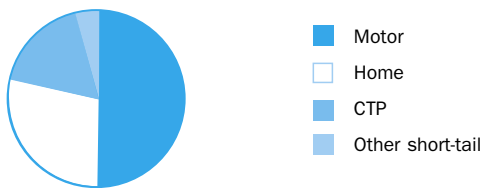
Adapted from 'Insurers get busy as claims top a record \$75m', Peter Weekes & Rachel Wells, The Age, 6/12/03.

REVIEW OF OPERATIONS

AUSTRALIAN PERSONAL INSURANCE

Our Australian personal insurance operation produced an outstanding result, assisted by greater diversity in both the products we offer and our expanded geographic distribution.

PORTFOLIO MIX % of GWP



PERFORMANCE

Our Australian personal insurance operation is the largest part of our business and contributes about 61% of the Group's gross written premium.

Across our personal lines portfolio, we achieved an insurance margin of 16.5% and a combined operating ratio of 87.9%. The number of policies in force at year end increased by 4.8%.

Weather patterns during the year influenced the result of the personal insurance operation. Fewer than average wet days during the year led to a strong result in our motor portfolio. However, this was partially off-set by severe storms across Melbourne, Sydney and Queensland which resulted in increased claims in our home insurance portfolio.

The worst of these storms hit Victoria in December 2003, which caused damage across many suburbs to the north-east of Melbourne. Our operations fielded more than 12,000 claims related to the storm and paid more than \$38 million to our customers. Within two days of the storms, almost 9,000 claims had been lodged, and we'd visited more than 850 homes. We're proud to report that all motor total loss claims were paid out within 48 hours of being assessed.

Our ability to respond to these storms and absorb their financial impact demonstrates the real value of our scale and diversified portfolio of risks.

Significant efficiencies achieved through the integration of CGU's personal lines operations into the Group contributed to the strength of

the result. We established a national operating model with common rating structures and centralised underwriting, supported by national claims lodgement processing units.

In addition, our supply chain management improved nationally and across all brands. More than 450 small businesses joined our smash repairer network, bringing our total network of preferred and associate smash repairer businesses to about 2,100. In recognition of the important role these partners play in our business, we launched the IAG Personal Insurance Preferred Supplier Code of Practice.

The success of our customer focus is clear. Retention levels across our largest portfolios of directly distributed home and motor insurance were above 90%, and customer satisfaction remained high. It was also rewarding to see customer complaints have halved since two years ago to 0.017% of direct policies in force, which is equivalent to one in 6,000 direct policies in force.

In December 2003, CGU's home and car insurance products were voted the best on the market by middle market brokers in the Deloitte/JP Morgan 2003 General Insurance Industry survey.

We commissioned Accenture to conduct a rigorous assessment of our operations during the year. This process benchmarked our performance internationally and found that our personal insurance claims service is competitive on a global scale.

Our product range and geographical presence continued to expand during the year. We tailored our home insurance product to the 'Over 50s' market, offering customers aged 50 and over additional benefits regardless of whether they work full time, and we began offering travel insurance through our direct brands. In addition, in February 2004, we launched our direct NRMA Insurance brand in Tasmania, complementing our existing indirect presence there through the CGU and Swann Insurance brands.

We introduced new home and motor insurance policy booklets during the year. Extensive customer research played an important role in the redesign process, which helped remove the 'fine print' and demystify insurance terminology. This project was an important part of our commitment to educate our customers and the community about how insurance works and reduce the incidence of underinsurance.



IAG RESPONDS TO SMASH REPAIR SKILL SHORTAGE Grade 11 student Samantha Ferguson is part of IAG's Jumpstart Autobody Traineeship programme. Samantha says: "Cars really interest me and this is a good opportunity to find out more and finish school at the same time." The programme, to encourage high school students to kick-start a career in the smash repair industry, will create about 400 smash repair traineeships over the next four years. IAG is contributing \$7.4 million nationally to the programme.

Our long-tail product line, compulsory third party insurance (CTP), further strengthened during the year, reaching the milestone of two million policies in force. Our CTP market share remained stable at around 40% of registrations in NSW, 2% in Queensland, and 100% in the ACT.

We passed on two premium reductions to our CTP customers in NSW, with our best metropolitan rate for a private use motor vehicle falling from \$345.40 in July 2003 to \$328.90 in June 2004, which is at 1995 levels. This reduction was largely due to the continued good experience in the number and cost of claims as a result of the NSW scheme reforms in 1999.

New CTP distribution channels were accessed through selected car dealers in NSW and Queensland under the Swann Insurance brand. We also continued to distribute CTP in regional Queensland through stock and station agents, Landmark and Elders, under the CGU brand.

OUR COMMUNITY

Our personal insurance operation worked to reduce risk within the community during the year through the introduction of a number of initiatives.

NRMA Insurance and the ACT Government contributed more than \$800,000 to the NRMA-ACT Road Safety Trust to help prevent road-related deaths and injuries and to provide enhanced rehabilitation options for injured people. We also supported community anti-speeding programmes such as 'Slow Down – You're Moving Too Fast' targeting young drivers in Sydney's north, and undertook road safety campaigns raising awareness about avoiding injury on our roads.

Our Australia-wide network of 20 Staff Consultative Committees, representing employees from all areas of the business, continued to champion a number of community initiatives. These ranged from local police partnerships tackling juvenile crime to insurance awareness education in schools.

We worked closely with our partners in the smash repair industry to reduce risk and environmental impact through the introduction of initiatives including:

- 'Risk Radar': an interactive CD ROM to help smash repairers identify the dangers their business poses to their workers and to the environment, and motivate them to minimise these dangers by offering reduced premiums to insure their business;

- Waste Management Strategy: a programme providing options to smash repairers to help them reduce the environmental impact of waste generated by their business;
- Jumpstart Autobody Traineeship: a \$7.4 million four-year programme to attract young Australians to the smash repair industry and boost its skills base, ensuring the sustainability of the industry in the longer term; and
- We also provided funding for small business succession planning and frontline management training among our preferred smash repair network.

We launched 'Home Help', an interactive website that provides comprehensive advice about how to reduce the environmental and safety risks around the home, including information on energy-efficient whitegoods, securing homes against theft and reducing the risk of property damage from bushfires, storms and floods.

In addition, we launched a 'Helpkit' to assist customers rebuilding after a major loss. The kit was created in response to last year's bushfires in Canberra and encourages the rebuilding of homes using sustainable materials and energy-efficient design. We also funded and convened the NSW Flood Summit. The forum focused on identifying and reducing the risk of flooding in NSW and raised awareness of the risks of global warming.

LOOKING FORWARD

Over the coming year, we expect our home and motor portfolios will remain stable, with low premium volatility and high customer retention rates. We will continue to maintain our underwriting discipline while pursuing growth in target areas. In particular, we will focus on growing our home insurance portfolio outside of NSW.

New distribution channels for our CTP business, including motor dealers, will be introduced in NSW and selected areas in Queensland.

We aim to maintain our margins by driving further efficiencies and reducing costs. In our indirect business, we will focus on improving online lodgement of claims, online tendering, automated supplier invoicing and payment.

As part of our ongoing commitment to reduce risk in the community, we will focus on our national theft and collision reduction strategies and will implement bushfire and cyclone peril ratings.



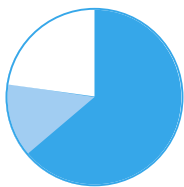
HELPING INJURED PEOPLE GET ON WITH THEIR LIVES Dubbo farmer Craig Brown was seriously injured when a horse fell on him while mustering. Shortly after the accident, Craig was flown to Sydney where doctors had to amputate part of his leg. IAG helped Craig with medical expenses and rehabilitation and provided the family with a weekly wage while Craig recovered from his injuries. By compensating him for his loss, IAG ensures Craig can get on with his life.

REVIEW OF OPERATIONS

AUSTRALIAN COMMERCIAL INSURANCE

Our Australian commercial insurance operation continued to perform strongly, despite increased competition with the entry of new players to the market.

PORTFOLIO MIX % of GWP



- Short-tail commercial
- Workers' compensation
- Liability

PERFORMANCE

Our Australian commercial insurance operation, which predominantly distributes products under the CGU brand through insurance brokers and agents, enjoyed continued organic growth across major product lines.

The business achieved an insurance margin of 9.6% and a combined operating ratio of 95.0%, and the number of policies and risks in force increased by 9.1%.

Opportunities for further growth were created with our entry into new markets. In May 2004, we began offering home warranty insurance in NSW and Victoria, giving builders greater choice and helping to reduce any delays for people building or renovating their homes. Our entry into this market followed extensive consultation with government regulators and the building industry to create a more efficient, effective and sustainable regulatory environment. We are currently investigating expansion into other States.

We also began developing our own marine insurance capability, which will enable us to offer our intermediaries and their customers a range of specialised marine insurance products. Marine insurance is an integral part of the suite of commercial insurance products offered by intermediaries.

CGU's high standing among brokers was again recognised in the Deloitte/JP Morgan 2003 General Insurance Industry survey. CGU was voted the country's best underwriter among major and middle market brokers.

We are proud of this industry recognition. However, we also accept there are significant opportunities to continually improve our products and services. One area in which we have worked hard over the past year is the development of web-based quoting and policy management tools for intermediaries, 'CGU Connect', which was launched in June 2004. The system is being progressively implemented, beginning with the home and premium funding products, and significantly improves a broker's ability to manage their CGU portfolio.

Major improvements were made to the 'IQs' internet quoting system that provides online quotes for the professional indemnity and directors' and officers' products.

During the year, CGU's very strong insurer financial strength and counterparty credit ratings were upgraded by international ratings agency Standard & Poor's from 'AA-' to 'AA'.

The introduction of the full Financial Services Reform Act (FSRA) regime in March 2004 provided customers with more information about insurance products, enabling greater transparency in the industry and allowing them to make a more informed choice. However, it presented significant training and compliance requirements for our staff and network of agents and brokers to support the legislative objectives. To address these changes, we developed a new compliance framework and a comprehensive online and face-to-face training programme. Over 3,000 authorised representatives and their staff and 1,000 of our own people completed the e-learning programme. We developed a compliance web portal to support our authorised representatives. It provides a range of services, including statements of advice, incident reporting facilities and a complaints resolution framework.

As Australia's largest regional and rural insurer, country Australia forms an integral part of our customer base. We have a strong presence in regional Australia through our network of branches and authorised representatives. Our comprehensive range of rural



AID FOR PEOPLE IN REMOTE AUSTRALIA People living on outback cattle stations are receiving training which could save a life, thanks to IAG's alliance with St John Ambulance Australia. A cattle station's nearest neighbour can be up to 300km away. While the Royal Flying Doctor Service is on call in the event of a serious accident, station workers must often undertake first aid themselves. IAG is providing first aid training to outback managers as part of our commitment to work with our customers to improve outcomes for injured workers.

insurance products, including farm property, crop, livestock, farm machinery and motor insurance, underpins our leadership position in these areas. Through our continued sponsorship of local CGU Business Awards in Tamworth, Orange and Ballarat, we support and promote the major contribution made by regional and rural Australia. The awards programme has been expanded to include Launceston.

We now provide workers' compensation services to more than 210,000 Australian employers covering around two million workers. We adopted the CGU brand for workers' compensation products and services and developed a new operating model for underwriting to identify potential cross-marketing opportunities and enable consistently high levels of service for employers and intermediaries. The success of these changes is evident in our renewal rates where we achieved over 90% in the States where we directly underwrite the risk.

OUR COMMUNITY

The Community Care Underwriting Agency (CCUA), our joint venture initiative established in 2002, has made public liability insurance more affordable and accessible for community groups and not-for-profit organisations. It became a truly national operation during the year with our entry into Victoria, Queensland and Tasmania. At 30 June 2004, it had issued more than 1,300 policies to a diverse group of not-for-profit organisations, including Canberra Balloon Fiesta and Southern Tasmanian Ski Association.

Our ability to offer cover through this initiative has been made easier by the passage of tort law reform introduced by the Federal and State Governments.

LOOKING FORWARD

Our commercial insurance operation is robust and well prepared to deliver continued strong performance.

We will maintain our focus on achieving appropriate pricing in our commercial classes to continue to make positive contributions to the Group's return on capital. This includes continuing to apply sound underwriting disciplines.

Capacity is returning to the commercial market due principally to improved pricing and the passage of tort reforms. We anticipate some levelling out of prices in this area of the market.

Work will also continue to improve the efficiency of our operations with a focus on further developing our e-commerce solutions.

In such a competitive market, our strong relationships with our intermediary partners will play an integral role in the ongoing success of the business.



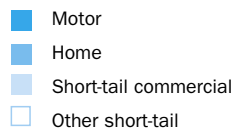
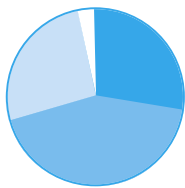
BURNING DOWN THE HOUSE IAG and the New Zealand Fire Service set two houses on fire to demonstrate how a home sprinkler and smoke alarm can save lives and property. The two houses were identical, except one was fitted with a sprinkler system and smoke alarm; the other was not. The fire in the home with the sprinkler was doused after 78 seconds, causing minimal damage. The home without the sprinkler was engulfed in flames within three minutes, destroying most of the property and its contents. Demonstrations like this enable us to educate our customers and the community about the effectiveness of sprinklers in dramatically reducing fire damage. It's part of our commitment to reducing risk in the community.

REVIEW OF OPERATIONS

INTERNATIONAL OPERATIONS NEW ZEALAND PERSONAL AND COMMERCIAL INSURANCE

Our New Zealand operation maintained critical business momentum during the year, despite managing the fallout from one of the worst weather related events in New Zealand's recorded history.

PORTFOLIO MIX % of GWP



PERFORMANCE

New Zealand experienced its second worst weather related insurance event when floods hit the lower North Island in February 2004. As a result, our New Zealand operation managed more than 5,500 claims, at a cost of NZ\$37 million. In addition, a spate of other significant weather related events occurred throughout January and February across the country.

Despite the demands of these unseasonal and widespread events, we maintained critical business momentum, achieving improvements across all key operating ratios. Together with the Captive reinsurer, we recorded an insurance margin of 7.5% and a combined operating ratio of 94.8%, and risks in force grew by 24%.

We successfully completed the integration of our two businesses – State and NZI – during the year. Optimising our scale, we reduced costs through a review of all supplier contracts and commercial business arrangements. In addition, we continued to re-engineer our end-to-end processes and systems, in one of the largest and most complex business process and technology change projects in New Zealand.

Our emphasis on providing consistent, quality service has contributed to good gains in customer satisfaction levels. Among our personal customers, survey results show satisfaction levels to be slightly above 85%.

We also maintained our very strong Standard & Poor's 'AA' insurer financial strength rating.

To ensure we continue to improve our service to our customers, a number of initiatives were introduced during the year. The first of a series of forums was held to gather feedback from a wide selection of our customers including State and NZI customers, brokers, corporate partners and agents. Service delivery improvements identified through these forums will be analysed and implemented in the coming months.

We established a 'New Ventures' unit to develop and incubate innovative business opportunities and new product lines. As a result we established a new travel insurance unit. During the year, we also launched a personal liability product for students and low income earners, after several well publicised house fires in tenanted properties.

In July 2004, we agreed to purchase 51% of Mike Henry Travel Insurance Limited, which will enable us to become the leading underwriter and distributor of travel insurance products within the New Zealand market. The full purchase will take place over two years.

The 'Ins'n'Outs' insurance guide was produced during the year, providing a simple explanation of how insurance works, to help our customers understand the small print and address issues of underinsurance.

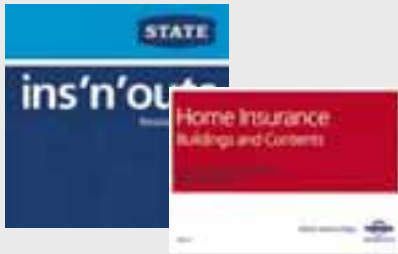
We introduced 'CrimeCheck', a free, preferred security supplier facility that brings our customers together with a quality home security solution supplier. Participating customers are eligible for a discount on their home and contents insurance premiums.

OUR COMMUNITY

As New Zealand's leading insurance group, we take seriously our obligation to the community. During the year, we assumed leadership of the New Zealand Insurance Council to engage in key community issues such as underinsurance, climate change, flood mitigation and aspects of industry regulation.

We made a significant contribution to building safer communities across New Zealand through:

- a partnership with the New Zealand Fire Service, to increase fire safety awareness and reduce the risk of fire;
- supporting volunteer community patrols throughout the country in conjunction with the New Zealand Police to reduce crime;
- working with the Thames Coromandel District Council and Environment Waikato on a project to mitigate flood risk; and



FINE PRINT GETS THE FLICK We know it can be difficult for our customers to find time to read and understand their insurance policy. That's why we've developed innovative new policy booklets and guides for our customers in Australia and New Zealand. Based on extensive customer research, the new guides are designed to simplify and demystify insurance terminology, helping customers in their decisions about insurance cover.

- a 'Driver Reviver' event on the South Island to combat driver fatigue. Around one-third of all road accidents in New Zealand are attributed to driver fatigue and we plan to expand the concept to other areas of the country shortly.

LOOKING FORWARD

We expect further positive trends in the results of our New Zealand operation, from further reductions in operating expenses as a result of the integration of the business. Our core challenge will be to maintain our leading positions across all market segments and continue to build profitable and sustainable earnings growth.

ASIAN INTERESTS

Our international operation includes interests in two businesses in Asia – 100% ownership of the Beijing Continental Automobile Association (CAA) roadside assistance venture in China and a strategic 20% shareholding in Thailand's Safety Insurance.

Established in Beijing in 1995, CAA is the largest motoring club in China, offering 24-hour roadside rescue and towing services, and vehicle management services including inspections, insurance and claims handling. CAA acts as an agent for motor vehicle insurance for some of China's largest insurers. IAG acquired an 80% stake in CAA in 1999, recognising the growth potential of one of the world's fastest growing economies. In December 2003, we increased our ownership to 100%.

CAA plans to progressively expand its business from its current geographic base in Beijing, to provide national coverage.

Our 20% owned business, Safety Insurance, is the fifth largest motor insurer in Thailand. Our technical assistance has enabled Safety Insurance to grow, improve its underwriting result, and to pay dividends for the second consecutive year.

LOOKING FORWARD

We recognise that our future non-organic growth opportunities are likely to be offshore. As such, part of our strategic objectives is to expand internationally, subject to finding the appropriate opportunities at the right price.

For over two years, we've undertaken considerable research and capability development, assuming that any international moves will rely on leveraging our core competencies. Parts of Asia have been identified as having the best potential for us to generate value by leveraging our world-class skills in underwriting motor insurance, motor claims management and direct distribution. Any international investments will be carefully reviewed to ensure they are in the interests of IAG.