Financial results
Half-year ended 31 December 2004

Michael Hawker, Chief Executive Officer
Media presentation
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Agenda

• Operating conditions & results
• Dividends
• Reducing risk in the business
• ROE and operating outlook
• Conclusion & questions
Momentum continues in 1H05

- Net profit increased to $446m
- Strong underlying performance and robust trading conditions which underpinned
  - Revenue (NEP) growth of 6.8% since 1H04
  - Insurance margin increase to 16.7%, with increases in each business segment
- Insurance earnings grew faster than premiums
  - Lower claims frequency/costs
  - Continued high retention
  - Synergy benefits flowing to the bottom line
  - Absence of major losses and savings in operational costs
- Record earnings on shareholders’ funds of $287m (pre-tax)

Sustained financial strength

- Annualised ROE for ordinary shareholders increased
  - Reported 27.8% (1H04: 18.4%)
  - Normalised 19.5% (1H04: 14.5%)
  - Exceeds long-term target of 1.5x WACC
- Average ROE for the four and half years since listing
  - Reported 11.6%
  - Normalised 13.5%
- Very strong capital position
  - Healthy cash flows - net cash from operations of $431m
  - Paid $238m in dividends to shareholders in 1H05
  - Group MCR multiple of 1.85x at December 2004
- All key wholly-owned insurers have retained 'AA' (Outlook ‘Stable’) S&P ratings
Interim dividend increased by 50%

Continued improvement in interim dividends – supported by increased EPS

Contributions to profit before tax

- Increased earnings driven by combination of
  - Sustained improvement in insurance operations
  - Realisation of synergies from CGU/NZI acquisitions
  - Increased investment returns on shareholders’ funds
Record equity market performance

<table>
<thead>
<tr>
<th>Portfolio income (pre-tax) and incl. derivatives</th>
<th>1H04</th>
<th>2H04</th>
<th>1H05</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technical reserves</td>
<td>67 A$m</td>
<td>2.0%</td>
<td>177 A$m</td>
</tr>
<tr>
<td>Shareholders' funds</td>
<td>204 A$m</td>
<td>18.8%</td>
<td>230 A$m</td>
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<tr>
<td>Total investment income</td>
<td>271 A$m</td>
<td>6.4%</td>
<td>407 A$m</td>
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*Returns are annualised

- The 1H05 technical reserves return of 4.05% (8.1% annualised) includes active return of 26 basis points
- The 1H05 return on shareholders’ funds of 11.7% (23.4% annualised) includes active return of 29 basis points
  - Return reflects mix of Australian equities (+17.9%), international equities (-1.8%), fixed interest (3.9%) and cash (3.5%)
- The overall return of 6.2% (12.4% annualised) includes active return of 27 basis points or approximately $26m (pre-tax)
## Financial results overview

<table>
<thead>
<tr>
<th>Financial results/ratios</th>
<th>Half-year ended</th>
<th>Half-year ended</th>
<th>Half-year ended</th>
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<tbody>
<tr>
<td></td>
<td>Dec-03</td>
<td>Jun-04</td>
<td>Dec-04</td>
</tr>
<tr>
<td>Net earned premium (A$m)</td>
<td>$2,912</td>
<td>$2,951</td>
<td>$3,109</td>
</tr>
<tr>
<td>Insurance profit (A$m)</td>
<td>$344</td>
<td>$448</td>
<td>$518</td>
</tr>
<tr>
<td>Shareholders' funds investment income (A$m)</td>
<td>$294</td>
<td>$230</td>
<td>$287</td>
</tr>
<tr>
<td>Profit before income tax &amp; OEI (A$m)</td>
<td>$464</td>
<td>$668</td>
<td>$723</td>
</tr>
<tr>
<td>Reported NPAT (A$m)</td>
<td>$302</td>
<td>$363</td>
<td>$446</td>
</tr>
<tr>
<td>Net cash flow from operations (A$m)</td>
<td>$694</td>
<td>$475</td>
<td>$431</td>
</tr>
<tr>
<td>Reported ROE % to ordinary shareholders</td>
<td>18.4</td>
<td>23.4</td>
<td>27.8</td>
</tr>
<tr>
<td>Normalised ROE % to ordinary shareholders</td>
<td>14.5</td>
<td>14.7</td>
<td>19.5</td>
</tr>
<tr>
<td>Basic EPS (cents)</td>
<td>17.07</td>
<td>20.80</td>
<td>27.06</td>
</tr>
<tr>
<td>Dividends per ordinary share</td>
<td>8.0</td>
<td>14.0</td>
<td>12.0</td>
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### Group insurance ratios

<table>
<thead>
<tr>
<th></th>
<th>65.6%</th>
<th>64.6%</th>
<th>66.5%</th>
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<tbody>
<tr>
<td>Loss ratio</td>
<td>24.9%</td>
<td>26.2%</td>
<td>25.3%</td>
</tr>
<tr>
<td>Expense ratio</td>
<td>17.1%</td>
<td>18.5%</td>
<td>17.2%</td>
</tr>
<tr>
<td>Administration expense ratio</td>
<td>7.8%</td>
<td>7.7%</td>
<td>8.1%</td>
</tr>
<tr>
<td>Combined ratio</td>
<td>90.5%</td>
<td>90.8%</td>
<td>91.8%</td>
</tr>
<tr>
<td>Insurance margin (before tax)</td>
<td>11.8%</td>
<td>15.2%</td>
<td>16.7%</td>
</tr>
<tr>
<td>Consolidated MCR multiple</td>
<td>1.90x</td>
<td>1.75x</td>
<td>1.85x</td>
</tr>
<tr>
<td>Australian insurance operations MCR multiple</td>
<td>2.21x</td>
<td>2.29x</td>
<td>2.12x</td>
</tr>
<tr>
<td>Minimum probability of sufficiency of claims reserves</td>
<td>99%</td>
<td>90%</td>
<td>90%</td>
</tr>
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## Delivering organic growth

- Gross written premium increased by 1.3% on 2H04
  - Compares with 4.5% for the previous six months
- Net earned premium increased by 5.4% on 2H04
  - Compares with 1.4% for the previous six months
- Each segment delivered sales growth (ie volume), which remains key to sustained top line growth
  - Improved customer service promoting strong renewal rates
  - Portfolio mix improving
  - Focus on increased segmentation and marketing
- Achieved against a backdrop of moderate increases or decreases in premium rates
In late 2004, NSW CTP benchmark premium was 34% of AWE.

Combined, there has been a 12% drop relative to AWE.

Claims satisfaction improvements, reduced complaint levels and increased engagement of our people are all positive indicators for sustained performance.
Ongoing focus delivering results

Sustained improvement in margins

- Long-term expectation: 9-12%
- FY04: 11.3%
- FY05: 14.8%

All business segments contributing

- Insurance result (pre-tax) A$m
  - Australian personal lines: $348
  - Australian commercial lines: $448
  - International: $518

Strong retention rates in key portfolios

- Intermediary commercial latest available data as at October 2004
  - 2H03: 1.62x
  - 1H04: 1.90x
  - 2H04: 1.75x

Sustained capital strength

- Benchmark MCR: 1.60x
- MCR Multiple (times)
  - 2H03: 1.85x
- 1H04: 1.55x
- 2H04: 1.55x
- 1H05: 2.17x

Reducing risk in the business

- Investment risk
  - Introduction of new classes, styles and managers
  - Surplus capital fund established

- Improved reinsurance protections
  - Increased top cover to $3.5bn from $3bn
  - $100m maximum event retention maintained
  - Improved credit quality

- MCR and contingent capital
  - At 1.85x vs benchmark of 1.55x
  - Pro forma including contingent capital (RES) is 2.17x
Return on equity improved

Note: Normalised calculation was based on two adjustments to actual NPAT to ordinary shareholders:
1. Exclusion of goodwill amortisation and non-recurring items
2. Shareholders’ fund return adjusted to be equivalent to the daily average 10-year bond rate for the year, plus 4%

Outlook
Outlook - drivers

- Profitability outlook influenced by a number of interacting factors
- External
  - Good economic performance in Australia and New Zealand
  - Increasing competitive pressures
  - Reinsurance rates stable
  - Stable liability classes due to tort law reforms
  - Investment market performance unlikely to be sustained
- Internal
  - Improving customer satisfaction and employee engagement
  - Ongoing risk selection improving our mix
  - Further expense savings to be realised

Outlook

- On balance
  - Now expect the FY05 insurance margin to be at least 15.0%, subject to no further major losses
  - NEP growth of 5-7% for FY05 is unchanged

- Strategy remains unchanged – focus on optimising our franchise in Australia and New Zealand and seeking overseas investment opportunities to supplement future earnings
Share price performance since listing

Questions