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

Anne O’Driscoll
Group Company Secretary &
Head of Investor Relations

Attachment (2 pages)
FINANCIAL HIGHLIGHTS

$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).

FINANCIAL PERFORMANCE

Interim report for shareholders 2004
improvement of $333 million and marks our highest half period. That’s an increased to a pre-tax profit of $204 million from a pre-tax loss period. As a result, our investment return on shareholders’ funds of 4.5% and 12.5%, respectively, in the previous corresponding period. The immunised dry weather contributing to a benign claims environment.

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. That’s an improvement of $33 million and marks our highest half year return since listing.

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 Australia’s leading general insurance group and demonstrates our ability to provide shareholders with quality, sustainable returns.

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 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. 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 Community Help grants to support projects that make communities safer, and continued our partnerships with St John Ambulance, NRMA CareFlight and the Salvation Army Emergency Service.

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. 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%.

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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.

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

James Strong, Chairman.

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

Michael Hawker
Chief Executive Officer.

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

Changes to Dividend Policy and Capital Structure

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

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