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J Strong: Ladies and gentleman, welcome to the 2006 annual general meeting of shareholders of Insurance Australia Group Limited. It's now past the appointed time of ten am. The company secretary has informed me that a quorum is well and truly present, thank you, and I know declare this meeting open. My name is James Strong. I am the Chairman of Directors of Insurance Australia Group Limited, and in accordance with the company's constitution, I am the Chairman of this meeting.

I'd now like to introduce the other directors who are on the stage here, not just in order coming across. First of all Geoffrey Cousins, Brian Schwartz, John Astbury, all non-executive directors. Then Michael Hawker, who I think everyone knows as our Chief Executive, Anne O'Driscoll, who is the company secretary, who will be helping me throughout the conduct of this meeting. And then the other non-executive directors, Rowan Ross, Yasmin Allen and Neil Hamilton.

I'd also like to particularly welcome shareholders who are viewing this meeting through the IAG website. We do not have any recorded apologies for today's meeting, and before we commence the formal business of the meeting today, I'd like to provide a brief overview of our performance during the financial year, and following that, I'll ask our Chief Executive Michael Hawker, to provide a more detailed review of the operations and financial performance of the company. We think this is a good opportunity for you to be given more background to understand our performance.

So before we begin the formal part of the meeting today, I'd like to provide an overview of Insurance Australia Group's performance for the 2006 financial year, with particular focus on our significant progress against our five year strategy and our corporate governance framework, those are two important issues. I'll then ask the Chief Executive, Michael Hawker, to provide a more detailed review of the operations of the company, and also an analysis of our operating

environment, which is obviously very important, plus an update of our outlook for the current year.

I am pleased to report that IAG again delivered a solid performance for the 2006 financial year, despite facing one of the most challenging operating environments in many years. We recorded a net profit after tax of \$759 million Australian, and our second highest annual insurance margin and return on equity since listing. We achieved this by adhering to core strategies, including firstly maintaining high customer retention in all major portfolios, and secondly, adhering to risk and underwriting principles rather than chasing unprofitable business to build market share.

We managed to contain our expenses during the year and achieve record investment returns on shareholder's funds, driven by buoyant equity markets and the additional value generated by our asset managers. We also benefited from the first financial contribution from our recently acquired Asian operations.

Some remarks on dividends and shareholder return. On the back of this performance, the Board was pleased to be able to deliver on its aim to increase dividends by double digit figures. A fully franked final dividend of 16 cents per ordinary share was declared and paid on 9 October 2006. This brings ordinary dividends for the year to 29.5 cents per share, representing an 11.3% increase on the previous year. The continued strength of IAG's financial position allowed for an additional special dividend of 12.5 cents per ordinary share, which was paid in June 2006, returning \$200 million in surplus capital to shareholders. When added to ordinary dividends, total dividends for the year reached 42 cents per share.

For those of you who have been shareholders since 1 January 2002, total return at 30 June 2006 was 104.4%. This ranks our company 25<sup>th</sup> of all companies in the S&P/ASX 100 index who have operated throughout the same period, something your Board and management are quite proud to report.

In terms of delivering on our strategy, we have achieved this performance by delivering on the five year corporate strategy which we committed to in talking to you in 2002. At that time we recognised two things; the need to generate scale in Australia and New Zealand, and secondly, to diversify our business by geography, product and distribution channel to spread our risks and generate sustained competitive levels of profitability. The first and most sizeable step we took was the acquisition of CGU and NZI four years ago, leading to our current position as the largest underwriter in terms of local gross premium in Australia and New Zealand. These acquisitions have delivered very significant value for shareholders.

We also recognise the need to move further off-shore, so we could continue to grow in line with our international peers. However, we have taken a slower and more cautious approach to off-shore expansion. Initially we focused on Asia and motor insurance, our core capability. We spent considerable time undertaking extensive research and building relationships. As a result of that work, over the last 18 months we have acquired interests in Thailand, Malaysia and Singapore, and we are seeking to complete a major investment in China's second largest general insurer, China-Pacific Property Insurance.

During the past year we also established a very competent team and infrastructure to continue to grow and manage our Asian interests. Meanwhile, we have been investigating opportunities in other regions, taking into account industry structures and the attractiveness and availability of particular entities. The UK market was identified as a current priority. We have maintained our focus on motor insurance as a lead product, and in September we announced the next step of our international growth strategy, with the acquisition of the Hastings Group in the UK. Hastings is the UK's fifth largest motor insurance broker, with a strong and distinctive brand name in the motor insurance market, and with plans to expand into other products. We

are confident that this acquisition gives us the perfect entry point to the UK market, and is a good deal for you as our shareholders.

Turning to corporate governance. To ensure we create value for our shareholders in a sustainable fashion, we are committed to the highest standards of corporate governance. Our corporate governance structure and risk management framework is designed to provide a sustainable balance between our core operating purpose, under standard price risk, pay claims, managed costs and reduced risk, and our responsibility to provide fair and stable returns to shareholders.

Our approach to governance is based on the view that it must be more than just compliance. While we already have the systems to help comply with a multitude of regulations, codes, rules and practices which govern how we operate, we believe the best protection is a healthy risk management culture within the organisation, based on strong values and a commitment to achieving the company's goals. To achieve this, the company promotes a culture that rewards transparency, honesty, merit, teamwork and social responsibility.

During the last year, our corporate governance framework has continued to evolve in response to changes in our operation, and as a result of our ongoing international expansion. Foremost has been the formation of a new committee, the International Advisory Panel. The panel is comprised of me as Chairman, some other members of the Board, senior executives and external advisers. A key part of the panel's role is to ensure our governance framework is effective in addressing issues that may arise in the course of our international expansion, as well as to deal appropriately with an expanded group. The panel provides advice and support to the group's executives to assist them, particularly in the area of culture and relationships, in the effective execution of the group strategy of building an international portfolio of general insurance businesses in regions and countries outside of Australia and New Zealand.

We are also upgrading our risk framework to cater for our growing portfolio of international interests. Managing risk is at the heart of

ensuring IAG's ongoing sustainability, and delivery of value to our shareholders. Our risk management framework is based on the interaction of the oversight structure, internal policies, key risk management processes and most importantly, culture. Our directors have a constant focus on these important issues, and I would like to thank each one of them here today for their consistent contribution over the course of the past year.

Turning to Board membership, I take this opportunity to indicate that the Board is planning for the future in terms of its own membership and composition. We will be strengthening the level of international insurance experience on our Board, as well approach a period when a number of existing Board members will reach the end of the normal expected period of Board service, as indicated in our Board charter. It is important for us to present to you, as shareholders, a very capable and skilled Board to ensure continuing high levels of governance and strategic decision making.

I'd now like to make some brief remarks about the resolutions that are before you, as the shareholders of this company, today. As noted in the notice of meeting, resolutions one and two ask you to vote on the re-election of two directors, Neil Hamilton, who's next to me, and myself. Neil and I are retiring by normal rotation in accordance with the company's constitution, and we're both offering ourselves for re-election. Obviously Neil and I will not participate in this vote, and I will pass the role of Chairman of this meeting to Rowan Ross during the discussion of this matter, to ensure impartiality.

In line with the requirements of the Corporations Act, resolution three gives you the opportunity to vote for the adoption of the remuneration report, which is situated within the annual report. As noted in that report, IAG's executive remuneration policy is designed to ensure we can attract and retain the best people and reward performance in mind with returns delivered to shareholders. And I am sure you all appreciate that the quality of our management has a really big effect on our level of profitability and success.

Building and retaining a high quality management team has enabled us to achieve superior long-term performance. The principles underpinning IAG's approach to executive remuneration are consistent with our values which I mentioned earlier, and take into account external market practice and internal relativities. The mix of fixed and variable remuneration reflects the impact of each executive position on our short and long-term results. For all IAG employees, our remuneration has to be competitive to ensure that we attract and retain the right talent, but also focused on the delivery of sustainable value to shareholders.

I believe the strength of our present executive team will carry the company forward with confidence into its next phase of growth. So I'll conclude by making some brief remarks looking forward. As a Board we are excited by the opportunities international expansion offers the group, to take our expertise to other markets and glean insights for our existing markets at home and in Asia. We are continuing to explore carefully opportunities to generate global scale by building a portfolio of assets throughout international insurance markets. In fact, you could say that IAG is well on the way to evolving into a different company and driving change and improvement.

We are confident about our opportunities for our businesses throughout Australia and New Zealand at the same time. We anticipate that strong competition will continue, but we're well placed for the future to maintain our leading market position. On behalf of the Board, I'd like to take this opportunity to publicly express appreciation to both Michael Hawker as the leader, and also his executive team and the staff of the group. IAG's performance is a reflection of their dedication and leadership, which has helped to create an enthusiastic and productive workforce. I'd like to thank all the people who work in the group for their contribution to our performance and success in 2006.

As I mentioned earlier, I pay tribute to my fellow Board members. It's been my pleasure to work with this group, who are committed and

very experienced. We've had a heavy schedule during the year, and I think the cooperation at the Board level and the very effective interaction with the management is a characteristic of this company now. The current year promises new challenges and opportunities for us in steering the future course for your company.

Finally, I'd like to thank you, our shareholders, for your continued support. I can ensure you that the Board is fully committed to playing a strategic role, in driving the company to achieve our aim of delivering top quartile shareholder returns. Thank you very much.

M Hawker: Thank you very much James, and good morning ladies and gentleman, and a very warm welcome to our seventh annual general meeting of Insurance Australia Group. What I thought I'd do this morning is to deal with three things. Firstly, our previous year, secondly, just to give a sense of how we are tracking against our five year plan, and then thirdly, a look into the future.

2006 has been interesting year for the company, with many highlights and some challenges. We have made good progress on our strategy to grow the company and to build a platform for a sustainable future. This was despite the fact the domestic markets were more competitive than the previous few years, with in particular the soft cycle in commercial insurance intensifying.

After an early and very public dispute with the New South Wales Motor Traders Association and the Smash Repair Industry, which affected our New South Wales motor portfolio, we finished the year with renewed momentum in that business. We focused on our customers, acknowledged our mistakes, changed our management, renewed our marketing, improved our customer service offerings, and our New South Wales motor insurance renewal rates have reached their highest level in this portfolio since listing the company.

The graph of our New South Wales motor insurance renewal rates illustrates this very well, and you can see the dip where we had the dispute, and where they are today. Unfortunately, this had a negative

impact on our second half profitability, due to the lag effect of changing volumes on profitability, and this lag effect will take another nine months before it is behind us.

As usual, during the year we dealt with a number of natural catastrophes, including Cyclone Larry in North Queensland, and major snowstorms in New Zealand. The losses we sustained from these two events push our losses above the average expected losses for property during the year, and over the years you get years where they're under, and you get years where they're over. This last year we had higher than expected storm costs above the average.

Our people did an outstanding job in helping our customers rebuild their properties, particularly after Cyclone Larry where General Peter Cosgrove signalled our company as among the best in responding to its customers. In fact, he labelled us the frontrunner. Our people take immense pride in being able to respond quickly, professionally and empathetically with our customers.

After two years of research identifying opportunities and building relationships, we have now made some investments in Asia. We believe these markets will provide significant and profitable growth opportunities for the company. These markets have high economic growth rates, are being open to foreign investment, and are underdeveloped in terms of general insurance. Many local general insurance companies are looking for skilled partners, suiting our desire to enter these markets.

The domestic insurers provide quality personnel, good distribution, market knowledge and customer data. We provide high quality underwriting skills, good risk management and governance capabilities, technology and data management skills, particularly in motor car insurance.

Since last speaking to you we have acquired interest in Thailand, Malaysia and Alba, the first Lloyd's of London multi-line syndicate based in Asia, which is located in Singapore. We have also secured an

agreement to purchase 24.9% of China's second largest general insurer, China-Pacific Property Insurance, and we're still waiting for final approvals, although progress has been a little slower than we've anticipated.

During the year we were awarded a number of accolades. Firstly, the Australia New Zealand Insurance Industry Awards awarded us the general insurance company of the year. The Australian arm of the United States on World Environment Day Awards, awarded us the Triple Bottom Line Award.

In New Zealand the Insurance Brokers Association of New Zealand awarded us the underwriter of the year for our business NZI. We received the Large Business of the Year Award from the National Sustainable Business Awards New Zealand, and we've also during the year been included into the FTSE 4 Good Index and the Dow Jones Sustainability Index, two significant international market indices that are looked at by international investors.

Let's have a look at our results. As reported, our end of year results announce, we delivered a net profit after tax of \$759 million, which was our second highest ROE and insurance margin since listing. This enabled us to pay a dividend of 29.5 cents per share fully franked, an increase from last year of 11.3%. Due to our strong capital position as the Chairman said, and the buoyant equity markets, which inflated our expected annual return. We're also able to pay a special dividend of 12.5 cents per share fully franked.

Now I want to have a quick look at our five year strategy. This is my fifth year with Insurance Australia Group, so I thought it might be timely to review our progress against the five year strategy we set from the financial year ending 30<sup>th</sup> of June 2002, so that five year strategy will be up at the end of this financial year, 30<sup>th</sup> of June 2007. Over that period of time our growth rate and gross written premiums has risen 15.5% per annum compound. This growth rate is on track to meet our stretched goal of doubling the gross written premium over

five years, doubling the size of the company. Also, our business is far more diversified than it was before.

For the same period, our actual profit growth has grown an annual compound rate of 39.6%. However, this has been boosted by very buoyant equity markets over the last three years, and a more realistic way is to look at that profit on a normalised basis. That means taking out the fluctuations in the equity markets, and assuming a long-term equity market return. And when you do that, you get those silver bars on the graph and you see that our compound annual growth rate on profit has been 15.3%, very similar to the top line growth rate in gross written premium.

Our returns on equity have been improving and have averaged 15.7% over the past four years, which is above our target of 1.5 times our weighted average cost of capital. During that time we have maintained our capital strength with a Standard & Poors financial strength rating of Double A for all our key wholly owned insurance operating entities, and that is the highest financial services rating of a company in Australia.

Due to the financial performance and the capital strength of our capital, we have been able to increase the dividends of the company by an annual compound growth rate of 29.5% over the past four years, and that excludes a special dividend we paid this year.

I want to talk about the economics in the general insurance business. These financial outcomes have been achieved by remaining strictly focused on what drives the economics of our business, that is the general insurance business. In my view, to remain profitable and successful over a long period of time in the general insurance business, you must have a number of things. Firstly, you must have a consistently competitive customer proposition. You must have outstanding personnel. You must have high performance and community aware company culture. You must have market leading risk management and pricing skills, and you need to be generating

annually compounding double digit growth rates in both premium income and profit.

Annualised double digit GWP growth rates require growth coming from both organic means and acquisitive means. Up until this year, our growth rate has been generated by approximately 5.5% organic growth and approximately 17.5% acquisitive growth. This year, due to the combination of the smash repair dispute, falling premiums in the liability classes due to reducing claims costs following Tort law reform, premiums falling on commercial classes due to competitive pressures, and premiums falling in some classes to unprofitable levels, our organic growth rate actually reduced.

You can see from this slide, that the Australian general insurance market is in a period of declining profitability. On the combined ratio, it shows you where your underwriting profits sit, and if it's a lower rate than that, or on this chart above that line it's profitable. If you're under that, you're starting into underwriting losses. And you can see on this graph back in the full year 2003-04, that all the cycles peaked and are now starting to come down in terms of profitability.

As general insurance markets tend to have cyclical profit patterns, having the ability to acquire businesses in markets that are improving in profitability, and also provide diversification, both in terms of earnings and capital, is critical to our company's success. Over the past four years the company has successfully acquired ten businesses, disposed of two and been underbidders on many more.

These acquisitions have all been earnings accretive within 18 months, and have substantially broadened the capacity and expertise of the company. The off-shore acquisitions have also provided the company with many more profitable growth options, as can be seen from this slide. Our five year strategy objective of building an Asian foothold has now been achieved. More recently we have also had the opportunity to build a foothold in the UK market, with a purchase in September of the Hastings and Advantage insurance companies.

In addition to the business fundamentals being attractive, the economic of this transaction are enhanced by the diversification of capital between the motor liability markets in the United Kingdom and Australia. We have built in the company a very capable acquisition team, which has executed the last four transactions using largely internal resources. Of course, building sustainable companies requires building strong internal capabilities. Put simply, this requires having well trained people who are strongly committed to the company, driving systematic improvements in its customer proposition, managing resources efficiently, maintaining strong risk management and governance standards, and having an understanding of the company's impact on the community.

Let's look at our customer measures which are strong and improving. As you can see from the slide, the brand health of our retail brands is improving in the top left hand corner, and have been slowly improving. These are long-term trends. In the last four years we have seen them all improve a couple of percentage points, and the NMRA brand, the top line there, still remains the premium insurance brand within Australia. Our customer retention and renewal rates are high and improving, and we have improving claim satisfaction in Australia, improving customer satisfaction in New Zealand, and our complaints overall continue to fall, which you can see on those other different graphs.

To measure the level in which our people are committed to our company, we use an internationally recognised measure developed by Hewitt's. Using this measure, over the past four years we have systematically improved the engagement of our people. We are an accredited training organisation, and this year we have developed and launched an insurance academy for our commercial classes of business, both in New Zealand and in Australia.

Over the past four years we've implemented a number of efficiency initiatives. These have enabled the company to keep its operational costs flat within existing businesses over the past three years. One

area in which we have had considerable success is in our IT area. We have reduced IT costs for the company by 3.9% per annum compound over the past four years, when at the same time, improved the reliability by over 40% and increased dramatically its functionality.

With respect to costs, it should also be noted that we are carrying the cost of our Asian regional management infrastructure, which we introduced to effectively manage the growth of our Asian businesses. This regional structure can be significantly leveraged as our growth aspirations within Asia can be locally managed, without adding further regional management infrastructure.

Let's have a look at that impact on the community. For the past three years we have published a sustainability report. Today, I am releasing our third sustainability report, which is titled *A single person can make a world of difference*. And the left hand side, that's what it looks like. This report illustrates that we have made substantial progress on a broad set of community measures, and on the right hand side of the slide you can see some of those where we've had 22% reduction of customer complaints, 16% reduction in office paper use, 82% of recycled waste in New Zealand and we can go on a reduction in lost time injuries through the company, the number of employee volunteering hours and improving engagement skills. We have reduced our CO2 footprint by about 6% for the company over the year. This report can be found our website [www.iag.com.au](http://www.iag.com.au).

In the insurance company we have been very concerned about the risks and impact of climate change on our community for a number of years. We have been working on ways to reduce our own CO2 emission footprint, alerting the community about the risks of climate change, and researching opportunities for our customers to benefit from CO2 reducing initiatives. These activities have been beneficial to our business through reducing cost, attracting employees and enhancing our customer proposition. Today I would like to take our further efforts a bit further by announcing our intention to become carbon neutral within the next five years.

Finally, let me give you an indication of the outlook for the company. I mentioned earlier that we have renewed momentum in our New South Wales personal loans business. I indicated the improvement in our renewal rates. We have also had improvements on our sales conversions. This has been driven by a combination of three factors; implementation of new technology, giving us a single customer profile, competitive pricing and revitalised marketing campaigns.

For the first three months of this financial year we have made significant progress. In the commercial lines of our business, the soft cycle continues, however. Despite this, we have performed in line with the same period last year, both in terms of gross written premium and insurance margin. We will continue our disciplined underwriting approach that is focused on maintaining insurance margins and strong customer relationships, rather than chasing unprofitable business.

Our New Zealand business continues to perform solidly. However, the Australian New Zealand exchange rate has been unfavourable over the past few months.

Let's have a look at the outlook. Having purchased the business in the UK recently, we have firmed our full year guidance. At the time of our results we expected our gross written premium to grow by 5 to 10% for the year. With this UK purchase we expect gross written premium growth to be at the higher end of this range, between 8 and 10%. There is also some possibility that it could go above that range as we have more potential acquisitions in the pipeline.

We also still expect to have a normalised return on equity to in excess of 15% for the year. For the first six months we expect gross written premium to grow in the 3 to 5%, so a lot of our growth will come in the second half of the financial year.

In summary, our strategy remains solidly on track. We are building platforms for long-term growth and profitability, both organically and through acquisition. The business has momentum in a highly competitive local market environment. We are proving the inherent capability of our business and we are strongly capitalised. We remain

focused and committed to our strategy, that has delivered solid returns for all our shareholders over the past four years, and I'm confident that we'll deliver ongoing value in the coming years. Thank you very much for your support.

J Strong:

Thanks very much Mike. There are four items of business before the company's annual general meeting this morning, and these are set out in the notice of meeting. Three of these items require resolutions to be voted upon. No notice of other business has been validly or duly given by shareholders pursuant to the Corporations Act. I'd now just like to deal with some procedures for the meeting.

Shareholders, visitors and members of the media are advised that in the absence of special permission I will not allow any recording or broadcasting device including tape recorders, still cameras and video cameras, and any article that maybe dangerous, offensive or liable to cause disruption to be brought into this meeting. If any such item is brought to the meeting, I will stop proceedings and request that it be removed immediately.

In accordance with the provisions of the Corporations Act I will ensure that shareholders here today have a reasonable opportunity to ask questions about, and make comments on the management of the company, and to ask questions of the auditors representative here at today's meeting. These questions to the auditor are limited to the matters specified in the Corporations Act and the procedures for this will be explained later in the meeting.

The only items of business to come before the meeting today will be those specified in the notice of meeting. I will not consent to other business being put to the meeting. This is because if any other matter or substance is to be put before an AGM, proper notice of such matter should be given to all shareholders, so that they may decide whether to attend the meeting or to appointment a proxy in the light of the proposed business for the meeting. It would be potentially unlawful and unfair to shareholders who are not present at today's meeting, if

the company considers and votes on items of business other than those specified in the notice of meeting.

I ask speakers to confine their questions and comments to matters that are relevant to the business of the meeting, and to particular resolutions that are being discussed at the relevant time during the meeting. The law requires me to give the body of shareholders as a whole a reasonable opportunity to ask questions and make comments. In this context I don't propose to impose a fixed time limit for speakers, but I do ask people in fairness to others, to make their point succinctly. I would ask that speakers restrict themselves to no more than two questions or comments at any one appearance at the microphone. In rotating through the microphones, I may give priority to a person who wishes to address the meeting for the first time, over someone who has already spoken on the same motion. Where appropriate I will call on specific directors, senior management or the auditor to respond to people's questions or comments. All questions I ask to be put through me as Chairman.

I should also say that this is not really the time or place to air complaints about individual matters such as insurance claims or the like. If you do have issues of this kind, please raise them with the Insurance Australia Group staff at the special desk that has been set up in the foyer to assist you with these sort of problems. To be as fair as possible, we have arranged for a queuing procedure at the microphones for those shareholders who wish to ask questions, and the company secretary Anne O'Driscoll will explain this procedure to you now.

A O'Driscoll: Thank you Chairman. Good morning. As you can see there are two microphones in the auditorium. Anyone wishing to speak should when advised that the floor is open for questions, move to one of the microphones and take their turn in the queue. I remind people that only shareholders, corporate representatives and proxy holders are entitled to speak in the business before the meeting, that is persons who are holding a blue or a red admission card. So when you move to

the microphone, please show that blue or red card to the operator there to establish that you are entitled to speak. Holders of green cards are deemed as visitors and are not entitled to speak to the meeting.

Please note that if you had appointed a proxy to vote for you at the meeting, but you've attended in person as well, your proxy's authority to speak and vote for you is suspended while you are at the meeting. The Chairman as he said will generally take comments and questions from each microphone in rotation. When you are next in the queue, the attendant at that microphone will introduce you. Thank you Chairman.

J Strong:

Thanks Anne. Polls on all resolutions will be open prior to the discussion on the first resolution, and will not be closed until the end of the meeting. This will enable those shareholders who do not wish to stay for the whole meeting, to cast their votes on the items of the business and leave the meeting early if they wish to do so. I will come back to the procedure for the polls shortly.

Before we move to the business of the meeting, I confirm that the minutes of the last annual general meeting of shareholders held on 9 November 2005 have been approved and signed by me, as the Chairman of that meeting, in accordance with the provisions of Section 251a of the Corporations Act, which I'm sure you understand. Copies of those meetings are available for shareholders inspection at the shareholder information desk in the foyer.

The notice convening this meeting has been sent to shareholders. Shareholders also had the opportunity to view the notice on our website. Unless there are any objections, I propose to proceed on the basis that the notice be taken as having been read to the meeting. If there are no objections, the notice of meeting is taken to have been read. I will now explain the way in which the discussions and polls will be conducted, before proceeding to the first item of business, as set out in the notice of the meeting. And you'll bear with me, I think it's important for people to understand how the polls are conducted.

As I indicated a moment ago, for the convenience of shareholders I will open the polls on all resolutions before this meeting, prior to the discussion on resolutions one and two, namely the re-election of directors. As I am one of the directors standing for re-election, Mr Rowan Ross has agreed to chair the meeting during the discussion of resolutions one and two. I then propose to invite discussion on resolution three, which relates to the adoption of the company's remuneration report, before giving shareholders directions on how to complete their voting papers on those resolutions.

Finally, I will move to the receipt and discussion of the company's financial statements and reports and will take any questions also for the auditor. Polls on all resolutions will close at the end of the meeting. There has been a large number of votes cast by proxies and those shareholders here today represent a smaller majority of the nearly one million members on the company's share register. In addition, each share in the company carries the right to one vote and a poll reflects those voting entitlements more fully. Accordingly, we don't propose to ask for a show of hands but direct that we move straight to a poll for each resolution. I believe that in practice this is the fairest way to proceed, and for the benefit of the returning officer, I now formally direct that polls be conducted in the manner that I have just described.

Turning to the filling out of the voting papers that you have, for shareholders who are able to stay for the entire meeting, the company secretary will give directions as to the completion of voting papers at the conclusion of the discussion of resolution three. However, once the polls have opened any shareholders who wish to vote and leave the meeting early may place their voting papers in the ballot boxes at the door on the way out. If departing shareholders require assistance with their voting cards, please ask the returning officer staff. I would encourage shareholders to stay for the duration of the meeting and to complete their voting cards at the relevant time, if they are able to stay.

Voting papers for all resolutions will be collected by the returning officer staff at the conclusion of the debate on all resolutions. So as not to hold up the meeting, the collection of voting papers will continue throughout the discussion on the last item, which is the company's financial statements and report. I consider that it is appropriate that shareholders know the state of the proxies on a resolution following the discussion of that particular resolution, but before you are asked to complete your voting papers. The returning officer, Mr Hamish Gidley-Baird has given me a written report as to the result of the proxy voting instructions received for each item of business, and I have accepted his recommendations as to the admission and rejection of proxies, and made rulings accordingly.

However, due to the many permeations which potentially arise from the proxy votes received, and because there maybe shareholders in the audience who have revoked their previous proxy and are now voting in person, these results are preliminary only. The preliminary results of the proxies for resolutions one and two will be displayed on the screen at the end of the discussion, at each of these resolutions so that you can see them. Similarly the preliminary result of the proxies for resolution three will be displayed immediately following the discussion on that resolution. In each case, the information will be displayed before shareholders are asked to fill in the relevant parts of their voting papers.

Once the polls have been closed and the counting completed, a report on the results will be announced to the Australian Stock Exchange as soon as it is available. It will then be placed on the company's website, [www.iag.com.au](http://www.iag.com.au) and posted in the foyer of NRMA Insurance City Branch, 74-76 King Street, Sydney, and at our registered office on or by Thursday 16 November. I now direct that polls be opened on resolutions one and three, and I now move to the first item of business before the meeting, which is ordinary business resolutions one and two, the re-election of directors.

Resolutions one and two are set out in the notice of meeting and as indicated on the screen, these resolutions relate to the re-election of two directors. I now propose to proceed to a discussion on each of resolutions one and two, being resolutions in relation to the re-election of two directors of the Board. These two items of business will be discussed in succession before the meeting proceeds to view proxy results, and to complete voting papers. As previously advised, as resolution two relates to my re-election, I propose to vacate the chair until discussion and representation of the preliminary proxy results on resolutions one and two have been conducted. And I now ask that Mr Rowan Ross take the chair for the duration of that process. Rowan.

R Ross: Thank you James. There are two directors standing for re-election to the Board. By now you will have had an opportunity to read the explanatory notes of the company, the notice of meeting. Those explanatory notes give a brief biography of the directors who offer themselves for re-election. While no other person has been nominated for election as a director, both candidates must still receive more votes in favour than against, from those shareholders voting in person, by corporate representative or by proxy, in order to re-elected.

Resolution one is that Mr Neil Hamilton be re-elected as a director. The text of the resolution is set out in the notice of meeting. I now invite Mr Hamilton to address the meeting.

N Hamilton: Thank you Rowan. Ladies and gentleman, I thought I might share with you a couple of observations I have on the role of directors and boards, that I hope might give you some insight into my thinking, and assist you in your determination as to my suitability to be a director of this company.

My qualifications, experience and background have been published in the documents that have been sent to you, and the annual reports over the various years. Better I thought that I explain to you my view of the importance in assessing the suitability of someone as a potential candidate to a board, to look at their contribution to the mix and balance and diversity of skills that comprise the board as a whole. I

very much look at boards as being that believe and contribution and mix and diversity, because that improves the level of debate and it hopefully achieves the outcome, where the contribution from the board as a whole is better and more productive than the sum of its constituent parts. I guess to use a sporting analogy, a great team will produce a better outcome than a group of very talented individuals.

I believe that I add to and contribute to the balance, mix and diversity of this board. And I'm delighted that my colleagues have seen fit to support my re-election, and I take that as their vote of confidence in my contribution. I'm also aware, as I'm sure you are, that the enhanced expectation of shareholders and indeed other stakeholders, including regulators and legislators, of the responsibilities and accountabilities of non-executive directors. I understand and accept those responsibilities fully. I'm very comfortable in my role as a non-executive director of this company to ask whatever questions I feel appropriate, to see whatever information I might require or clarification on any issue, and express my opinions no matter how unpopular they might be.

However, I am very mindful in discharging those responsibilities, of not interfering with the long established and I believe very appropriate relationships that exist between the roles of directors and boards, notwithstanding the enhanced and growing expectation of [NEDS], I believe it is very clear to me that boards aren't here to manage. Therefore, in discharging my duties and obligations, I seek to do so in a way that is sensitive to the relationship between the board and management, and seek to be constructive, such that you create an environment where both management and boards are aware of and respectful that their roles and responsibilities, and an environment in which management is very comfortable in bringing to the board and sharing with the board, all the issues that might be of concern to them, whether they be risks or opportunities, such that our assessments and debates together, can produce better outcomes for the company as a whole.

Ladies and gentleman, I've been a director of this company for a number of years, and I'm before you today seeking re-election. I've enjoyed the opportunity to date, and look forward to an opportunity going forward. I have the time and the energy and the desire to continue to make a contribution with your support. Thank you very much.

R Ross: Thank you Neil. If anyone else wishes to speak in relation to this resolution, please make your way towards the microphone.

Question: (Mr Jack Tilburn, Shareholder) Yes, well the attendant Joe has introduced me, and I'm willing to give it a go about Mr Neil Hamilton. Now, the first good thing for him, is when you look at pages 58 and 59 of the quite good annual report, Mr Hamilton has accumulated 96,278 shares, and that includes 20,351 that he got through not taking up his directors remuneration, but instead taking up shares I understand, are which the shares he pays for from his remuneration. That's quite good. That's a good credit and compliment for Mr Neil Hamilton.

Now through you Mr Rowan Ross, Acting Chairman, what I would like to know a bit more though, is about his directorships in other companies. I read in his profile that he is a Chairman of IRESS, a very funny clipped word or initials, IRESS Market Technology Limited. Also he said he has a chairmanship I think of Integrated Group Limited. Well, what I'd like to know and I'm sure the other members here, the owners of this company, is on the principles of openness, frankness and transparency, OFT, which I love and like, what are these two companies? Are they listed on the Australian Stock Exchange? What range of operations do these companies carry out? That's what I and I'm sure the other owners of IAG would like to know. Thank you.

R Ross: Thanks Mr Tilburn. Neil, I'll pass across to you.

N Hamilton: Thank you Mr Tilburn. Yes, I'm happy to amplify that information. IRESS Market Technology is a listed public company. It has a market capitalisation of approximately \$750 million. It's head office is in Melbourne. It's a company that has a very strong position, it provides

systems and information systems to users of the equity markets, principally in Australia, including the provision of autorouting services. It has a dominant position in that space. So I don't know, probably every stockbroker or fund manager that's here today has an IRESS screen sitting on its desk.

The company is owned as to approximately 15% by the Australian Stock Exchange. It also has operations in Canada, where it has in recent time developed a position of market leadership. It was many years ago, part of the Bridge Information System Group, and in the last several years has acquired the operations of Reuters in this information vending space in Australia. A very successful company, and I hope that's enough background and information for you on that.

The Integrated Group likewise is a listed public company. Its head office is in Perth in Western Australia, although it has operations across Australia. It's a provider of labour and manning services. It sends 7,000 Australians each day out to work, mainly in the temporary and supplemental labour hire markets, with a very strong presence in the off-shore oil and gas sector – we have a pre-eminent position, providing people on platforms and FPSO's and the like in off-shore oil and gas sector. It has a revenue of approximately \$400 million and a market capitalisation I believe, of about \$170 million at the present time. Thank you.

R Ross: Thanks Neil. Are there any other questions or comments?

Question: (Michael Perry, Australian Shareholders Association, proxy holder)  
Thank you Mr Acting Chairman. I carry proxies for members of the Australian Shareholders Association and others, approaching two million shares in total. Just a couple of comments. Firstly, thank you Mr Hamilton for taking the trouble and the courtesy to address this meeting. It is becoming unfortunately, a reasonably rare occurrence for directors up for election and re-election to address the meeting, and I appreciate the trouble you've taken to do that.

My next comment is one of concern actually, Mr Acting Chairman, and I understood our Chairman, Mr Strong, to say that all voting would proceed directly to the polls without any show of hands. Well, could I just make the point that a lot of retail shareholders particularly, have taken the trouble to attend this meeting. Many of them prefer not to stand up and speak, but I know that a lot of them do appreciate being able to express their views by way of voting, which I feel is harmless and doesn't in any way detract from the procedures of this occasion. It certainly doesn't endanger the validity of any votes, since anything that is in any doubt will be subject to the polls anyway. So I would ask our Chairman through you, Mr Acting Chairman, to reconsider that decision and allow those shareholders attending to exercise their votes through a show of hands before votes go to the poll.

R Ross: Thanks Mr Perry. I'm sure our Chairman will note that. Thank you. Are there any other questions or comments on resolution one?

Question: (Dr Zahir) Mr Chairman, I'm very proud that for the first time I come to IAG meeting, and used to be when NRMA meeting was around, of course, they had a lot of mistakes, I mean before you came in. So they were under my bombardment. My face is very, very familiar, nicknamed Dr Colombo because I find the mistakes, number one. Mother Theresa called me 1980 Dr Zahir The Great, number two. Number three, we know you NRMA Insurance. I open my mouth to everybody. They say hi Doc, which insurance with you? I said NRMA. Oh, I was very happy, I heard NRMA. I said no, I'm with IAG now. IAG. Why are you not going with NRMA. I said that is the same. So now first of all, from the bottom of my heart, since one year is a good thing, starting from president to executive and the team, minus one in the board, which is the board of director everybody knows. They are fabulous, and I wish that you give a hand and work together.

My question is, from Mr Hamilton, there is any planning with you and your board that you try to bring some health funds into your insurance. If you do that, a quarter of century I am experienced in this country, acupuncture and Shiatsu. I stopped smoking. Your

people do not burn that around – start from home to bushes to whatever, and you have to pay for it. Number one, as Australian citizens we look good, you look good. So when I'm looking good, you're looking good too. Thank you very much.

R Ross: Thank you Dr Zahir. If I can just say, as is well known to this audience, the strategy of the company is focused on general insurance, it's not focused on health insurance. But we do understand the benefits of a healthy society for ourselves, so thank you for that.

Are there any further questions or comments? If not, I'll conclude the discussion on resolution one and we'll move to resolution two, which is that Mr James Strong be re-elected as a director. The text of the resolution is set out in the notice of meeting, and I'd like to invite James Strong to address you.

J Strong: Thanks Mr Chairman. This is my sixth annual general meeting of the group. I've been on the board since August 2001. I'm very pleased to offer myself for another term, and to do that with some enthusiasm. I enjoy working with my board colleagues, who are here before you today, and I also enjoy working with Mike Hawker, both personally, and his team as well.

I believe that what we've developed very carefully and steadily is a very good level of mutual trust and confidence between the board and the management, and I think from your point of view that's essential. There's nothing worse than investing in a company where those responsible for delivering to you, seem to be engaging themselves in everything other than getting the best results for you. And that's certainly something that we believe we've made a lot of progress on, and we do have this very good level of cooperation.

I believe that the board and the management are developing and following strategies which are to the best advantage of both shareholders and customers, and also our own staff in terms of offering them exciting careers. I believe that we are doing everything possible to make sure that this company acts responsibly in terms of

the community, and the country in which we live. And I can ensure you that as long as I'm Chairman of this company, I'll continue to concentrate on maintaining those good relationships within the company, so that we have stability between the board and the management, and an atmosphere where we can concentrate on the real issues, and also provide good governance.

I believe the board today is one which – I think Neil made some interesting comments about it. We do have a good level of debate. It's not some cosy group who all agree with each other. At times we have some very interesting discussions. I won't nominate culprits who are more vigorous than others, but I think that's in your interests that we have different points of view. We've got people with different mix of skills. And what is very important for a board to deliver to you, is a very vigorous examination of risk and return to you as shareholders.

So with those comments, I offer myself for re-election. Thank you very much.

R Ross: Thank you James. Are there any comments or discussion on resolution two?

Question: (Mr Jack Tilburn) Thank you very much Joe again. He's a good minder for me. Ladies and gentleman, one small thing. I joined the ranks of the octogenarians today, I'm eighty, so I thought I'd come along and – Dr Zahir down there would like to know about my health. Thank you Sir. It's pretty bloody good. I would like to give credit to Mr James Strong in directing and controlling our quite marvellous general insurance company, IAG, ladies and gentleman, for the last financial year. I think he's going to stand up for some more bright questions in resolution four on the accounts, but I think that he's done a good job. And I'm willing to vote my little old blue card with a cross for yes for him again.

On the credit side, on pages 58 and 59, ladies and gentleman, Mr James Strong has accumulated quite a handsome, quite a large amount of shares in IAG, 247,000, but on the other page next to it,

59, they only say he's got 198,000. Perhaps James Strong can tell me, or Anne O'Driscoll, why there is an incompatibility in the two numbers on the two pages. That didn't happen for Mr Hamilton.

Now turning over though, and just looking at Mr James Strong's directorships, which he didn't go into. He's Chairman of the Insurance Australia Group. Right, well that's equal to about two or three ordinary directorships. Mr Hamilton's only got one directorship here, but Mr James Strong has got two or three because he's the Chairman of this group of directors. Then he's the Chairman of Woolworths, where he loves me coming along and pounding him. We meet in two weeks time at Woolworths. Another two or three directorships. Is it now, unfortunately in my opinion, ladies and gentleman, being pushed on the board of Qantas Airways Limited as a director. Well, we're up to two, four, that's five directors, or three and three plus one, that's seven directorships. Quite a big loading, quite a big amount of work on your plate, morning, noon and night.

Chairman of Rip Curl Group Proprietary Limited, another chairmanship. Then he's also the Chairman of IAG Nomination, Remuneration and Sustainability Committee. More work, more hours, more grit and gumption like John Wayne. And now my question is, is he a director or Chairman of IAG Finance New Zealand Limited? Now I read about him being on that board, but I didn't see whether he was clarifying it as a director or a chairman of IAG Finance New Zealand Limited. Through you Mr Rowan Ross, thank you Acting Chairman, what position has he got?

Now ladies and gentleman, I've been around 28 years these meetings, nearly 400 AGM's, and he has far, far and far too many directorships and chairmanships. He's overloaded, he's overweighted, as your stockbroker might say, you're overweighted in IAG. I don't think so, it's a good company. Even if he worked 25 hours per day or eight days the week, he could not adequately cover all jobs. And a little book came out about 15 years ago called *Corporate Practices and Conduct*. I'll just quote from it. My great mate who was the first

Chairman of the Australian Securities Commission, some of you would remember, the great Henry Bosch, this is what he wrote, Henry Bosch in his book. *"Directors should ensure",* quoting, thank you ladies and gentleman, *"directors should ensure that they devote sufficient time to any directorship accepted. The number of directorships held will depend on the size and nature of the companies, and the director's other commitments."*

Now I feel that Mr James Strong is showing weakness in going on so many boards and being a chairman and being a director. Now please Mr Rowan Ross, I, myself and others would like to know about that entity IAG Finance New Zealand Limited, Sir. Is he a director or a chairman of it?

R Ross: Thank you Mr Tilburn. As I understand it, there are three points you were making there. You asked for an explanation of the shareholding that Mr Strong has, which I'll ask Anne O'Driscoll to address in a second. Also this question about IAG Finance New Zealand, whether James is chairman or a director. And also you were making comments on the number of boards that he's on, and his time commitment.

Can I just say on the latter, it is this board's view in supporting Mr Strong's re-election that he does have adequate time, more than adequate time to devote to the matters of this company, so we as a board are completely satisfied on that question. Anne.

A O'Driscoll: In respect to the number of shares, and its different definitions in different places. But on page 59, which is the 198,000 you refer to, they are shares held indirectly, as opposed to the total shares. So the heading says shares held indirectly at the end of the year. So shares held by James' wife and other related entities of James, actually get included in the overall total, and so it's just specifying what's held directly versus indirectly.

J Strong: Thanks Mr Chairman. Ladies and gentleman, I'm always very touched by Jack's concern for my workload and personal welfare. It's quite a touching thing, Jack. The other ones you mentioned, the nomination

NRSC is an internal committee which is just supervising succession in board terms, what we pay the staff within IAG, and also the policies that we follow in relation to sustainability. So I'd categorise that as within the normal scope of the working of the company, it's not something extra and outside. IAG Finance New Zealand is in fact a funding and investment vehicle to implement our strategies within the group as well.

So whilst they're both specialist roles, they're within the normal things that a chairman would be doing within the group, and I don't regard them as extra workload over and above being chairman. So I hope that clarifies that. Jack, you must know and everybody here must know, that obviously there can always be discussion about degrees of workload and so on. All I can do is to assure you that in anything that I'm involved with, I always ask people to tell me if they think I'm not devoting enough time and effort, and I have had no complaints from any of the things I'm involved with.

A lot of it has to do with how you plan your life. I don't do frivolous things like enjoy myself in other times, but that's my problem. And I certainly do enjoy everything I'm doing, as I mentioned before, I don't get involved in anything unless I think it's worthwhile, and I like the people involved and I like the style of the company and their ethics in doing things. And so that certainly applies in this case.

And it's all about planning, Jack. I can tell you now where I'll be every week of next year, literally, and what I'll be doing. And I'm still enjoying it and I can assure all shareholders that I put a lot of energy and enthusiasm into it. Thank you very much.

R Ross: Thank you James. Any more questions? Microphone one.

Question: (Mr Joe Nagy) Thank you very much Mr Chairman, Mr Ross. My question concerns the unfortunate experience that you've already touched on, and that was the dispute with Smash Repairs. What lessons did the board learn and in particular, you two gentleman, even though I know, I realise that there's seven of you up there on the

board of eight, so maybe it's unfair of me to single you out. But I thought I'd raise this question with you. What lessons or what changes has the board learned to make concerning this, so that we don't have a repetition of it? Because last year, as you all know, this was quite a strong topic of discussion, and I hope the board has taken this on board. Thank you.

R Ross: Thank you Mr Nagy. I can assure you the board has, but I'll ask James to speak on behalf of the board. James.

J Strong: Yes, thank you Mr Chairman. I think there were a whole range of things to learn from last year, and I hope every shareholder would agree with me that anybody who thinks they know everything about how to do anything, is a very dangerous person. And I can assure you that following what happened, I mean obviously Michael could tell you a lot about this, but you are asking us as directors, and so I will reply as a director and as chairman.

We had very extensive reviews internally about each aspect of it, to see what we learnt about it. There were changes in our organisation as a result. By saying that, I don't think that we were the sole party who had things to learn from it. I think there were other tactics used which I have grave reservations about, but I'm not going to go on about that, because life has gone on. And we certainly made some adjustments. I think there were issues about listening hard enough, talking to people enough beforehand, but then there were issues about over-reaction as well.

I think the biggest thing is to be positive about it, from our point of view, and not to get into bearing grudges and so on. And I think you'd know that we've been engaged in a very open discussion with the MTA as a result of this. There was litigation between the parties, but that was settled in the end, on the basis of well let's get on with life. And that dialogue's going very well and I'm sure later if you want Michael to talk a bit more about that, he could.

Everybody's been progressive and looking forward to getting on with life, rather than dwelling on it. So yes, we learnt lessons, we made adjustments, we took note of it, and I hope as a result of that, we're a better company going forward.

R Ross: Thank you James. There are no more questions, so that concludes the discussion on resolution two. As indicated in the notice of meeting, the directors recommend that you vote in favour of each of resolutions one and two. I'll now display the preliminary results of the proxy instructions for resolutions one and two.

As stated earlier in the meeting, instructions will be given regarding the completion of voting papers at the end of the debate on all resolutions, but if you'd like to fill out your voting papers for resolutions one and two, you may do so. James, back to you.

J Strong: Thanks very much, Rowan, and thanks for conducting that so ably on behalf of the board. Could we now move to resolution three. This resolution is put to the meeting in accordance with the Corporations Act. The resolution is that the company's remuneration report for the financial year ended 30 June 2006 be adopted. The full text of the resolution, of course, is set out in your notice of meeting. Under the Corporations Act, this vote is advisory, meaning the result of the resolution will not bind the directors or the company.

The remuneration report is set out on pages 45 to 58 of the company's 2006 annual report, and provides extensive disclosures of director and executive remuneration. The directors recommend that shareholders vote in favour of resolution three. If anyone wishes to speak in relation to resolution three, please make your way to the microphone now. This is also your opportunity to ask questions and make comments on that report.

Question: (Mr Joe Nagy) Thank you. Unfortunately I have several questions on this, and hope to get a chance to ask all of them, because I think all of them are very relevant to this meeting. And I have to compliment the board on its transparency. The first question is, why does the share

price graph on page 48 include dividends reinvested? Is it because it makes it look better than the S&P/ASX Ordinaries Accumulation Index? That's the first question.

Can you also explain, and there's no personality or there's no offence meant here, but it is a personal question in a sense. Can you explain why Miss S J Mostyn does in her job as Group Executive Culture and Reputation, that justifies her \$1.2 million remuneration package?

Most important of all these questions is the next one. What are the quantifiable numbers and hurdles, targets or goals that IAG's executives have to achieve, in order to qualify for PAR's, PSR's and other financial benefits? As Mr Cousins knows, as well as others such as shareholders in Telstra, this information is very, very important and has caused a stir among the media, and of course Telstra shareholders. Why therefore does IAG's board keep this information, and I assume it's keeping it, I haven't read the complete 140 page report, but I've gone through it a little bit. Why does it keep this information from shareholders, as it does not appear on the financials? What is the sensitivity here?

J Strong:

Thanks Mr Nagy. I'll attempt to respond to those, and I might have to get a little bit of extra information from some other people.

Relating to your first question, why the dividends are included? The hurdle rate is the TSR, and as you know TSR's made up of a combination of the share price, as well as the dividend which is received by shareholders, and I hope that gets to the point that you're asking there.

In the case of Sam Mostyn, I don't have a formal outline of her duties here, but I can describe them to you. She's in charge of reputation, which is the whole area of the way in which the company communicates with and behaves in the public domain, both with community groups, the whole area of our interaction with the public domain and our corporate reputation, as to how we behave as a company. That also involves overseeing risk factors and preparing

plans to respond to things which threaten the reputation, or the continuity of the company. She's also in charge of the whole human relations area, and also public relations in the company's imagery, and also in Government relations, which is really important to our business, as I'm sure you'd understand.

So I think you'll see that she's quite a senior member of the team, with quite an important range of responsibilities, an executive member who reports direct to Michael, part of his key team. So I hope that helps you to see that yes, it is a good remuneration package, but she's a key member of the team and does a very good job. I think she's been part of working closely with Michael and the team of lifting the whole positive way that we go outwards these days, as distinct from being defensive on the back foot, as may have been the case in the past.

In terms of targets and hurdles, as you know you've mentioned a whole range of benefits that are used, and I don't have with me here a complete list. The general tendency, by the way there's no problem if you want us to send you that sort of information, but so people understand. As you know, remuneration packages these days almost without variation across corporations, consist of a basic salary, annual salary, and then short-term incentives and long-term incentives. The idea is that the short-term incentives relate to specific performance criteria for the individual executive concerned, or manager concerned, and there'll be a range of things to do with the actual job that they're doing. And we very specifically set these out, define them and set them out. They're communicated to the executive at the beginning of the year, so they know what their targets are, and that unless those are achieved, there won't be any short-term bonus paid. Obviously in this case, this is to drive the year by year performance of the company, and I'm sure with your background, you're well aware of that.

In the case of the long-term incentives, which particularly relates to the shares, these are tied around a range of things, but they very heavily feature on the actual share performance itself. And the idea,

as you know, is to make the management identify with the shareholder, in other words, what's good for the shareholder is good for them, so that's to motivate behaviour which is long-term looking at longer term welfare and success for the company, as distinct from that driving the short-term profit in the short-term incentive plan.

Other than that, I don't have a great list of those here, but I'm quite happy to communicate further with you. I just want to assure you, both as chairman of the company and chairman of the remuneration committee, that they're very comprehensive, that we ensure that this is administered properly every year. And that there's no designing of benefits so that people think they'll get them. They must perform, and the performance hurdles are, we believe, quite challenging.

Question:

(Mr Jack Tilburn) Thank you Joe again, and through you Mr James Strong, thank you. Ladies and gentleman, there's only two fairly easy questions. I just want clarification. I have been looking at page 46. Now ladies and gentleman, overall the remuneration report for the executives and other employees no doubt, is all very, very handsome, well packaged, well put together, and there's quite a good bit of transparency there.

I have just two problems here. Looking at page 46, quote *"employer superannuation contributions are 13% of base salary for executives"*. Question, isn't this higher than the 9% compulsory employer contribution, and if it is higher than the 9% compulsory employer contribution to staff personnel, if so why? That's down the bottom of page 46. You've set out all the categories of finance, customer, risk, people management, people management again, oh dear, two lots, I don't know what that is, and also community and environment. All quite good, goals, targets, sectors, segments etc, etc.

Now those of those sectors and segments, it says that they were not met by the executives. The finance hurdle category was not met, repeat not met, and you go down to the people management hurdle category segment, was not met. Question, does this mean with two of those important hurdles and areas not met, that the salaries were

reduced by X% and or of course, that's translated as you know, James Strong, into Y number of dollars for the executives. I wonder if that is so, and a bit more clarification, and what type of quantum are we looking at, that their salaries may have been reduced because they never met those two targets on finance and people management? Thank you.

J Strong: Okay. Thanks Mr Tilburn, and Happy Birthday by the way. Can I take your second point first? Yes, that's a very good observation. That's the purpose of, going back to Mr Nagy's question, of having specific targets and hurdles. And last year was a very competitive year, as you know, and as Michael's acknowledged in his report, in some areas we had competitors who we believe brought prices down too much and all those sorts of things. So we didn't achieve all of those targets.

And if you turn to the page over to 50 and 51, and I'm not picking on Michael here, but let's use as an example in terms of being responsible. If on the left hand page 50, you'll see that his short-term incentives were \$632,000, and then you run your eye over to the opposite page, 51, it's about half of what he got the year before. So you'd say yes, there are consequences, and that's why you must have well designed plans and they must apply to the actual performance. So thanks for asking the question, because it is a very good demonstration of what I believe to be properly designed remuneration plans.

In relation to your first question, Jack, yes the level of superannuation contribution is 13%. Now the first point I make, is it's the same for everyone in the group. It's not higher executives getting more than staff in other categories in the company. Is that higher than the 9%? Well obviously it is. It has been at that level for quite some time. It probably reflects that in companies, and this was a mutual company as you know, an insurance company, so there was a tendency to try to have quite attractive terms and conditions for staff, if you go back some years ago. If we were starting again now, would we go to 13%? Probably not, but in the end you've got to have a package of benefits

which will hold and attract people. And it was seen in those days that a very good superannuation scheme, people liked it, and they'd stay with a company with a good scheme.

We have introduced a scheme whereby some people can drop down their superannuation at executive levels, and take it into other direct remuneration to give more flexibility. You would be aware that the Trade Union Movement is still pushing for super to be actually higher than 9%, and if that happened, then obviously we'd still be covered. So I hope those comments give you a bit of background to understanding that, but that is the level that's been established for some time, and whilst we're introducing more flexibility for people to have more flexibility, that is the current rate applying to all people within the group. Thank you.

So if there are no other speakers, that concludes the discussion on resolution three. And what I'd like to now display for your information, is the preliminary results of the proxy instructions for resolution three.

That concludes the debate on resolutions one to three, and I invite the company secretary to give instructions regarding the completion of voting papers. They're the only matters on which there's voting. For shareholders who are present and voting in person, corporate representatives and proxy holders, please complete your blue voting papers in respect of resolutions one to three. Directions for completing your papers are included on the reverse side of the blue card. Please fill out your paper in accordance with those instructions, and sign the ballot paper where indicated.

We'll now pause for a moment to allow you time to complete your voting papers on each of resolutions one to three. Once you've completed your blue voting papers, please tear off the top section of the paper for submission to the returning officer, and keep the bottom section, which can be used later for you to show when you wish to address the meeting. So we'll pause for two minutes.

A O'Driscoll: Ladies and gentleman, as the voting papers are being collected, and as indicated earlier in the meeting, we'll now actually continue with the rest of the meeting, to consider the next item. So we'll move onto the last item of business, which is of ordinary business, which is the receipt and discussion of the company's financial statements and report. And I'll now explain the procedures for that.

So the staff will circulate, as they're going on there, with the completed voting papers. Please hand your voting papers to them, if you haven't done so already, but also, recognise that the polls will remain open to the end. You do not have to hand in your voting papers yet. Please take care to check you've completed all relevant parts of your voting papers, before putting them in the collection boxes, and retain the bottom section in case you wish to address the meeting later.

As I've said, the polls will not close until the end of the meeting, so if you need a little more time please indicate that to the returning officer staff. However, to be effective, your voting papers must be placed in the ballot box before the close of the polls at the end of the meeting. And with that, I'll hand back to the chairman to address that matter.

J Strong: Thanks Anne. The Insurance Australia Group Limited financial statements for the year ended 30 June 2006, the directors' statement and report, and the auditor's report on the financial statements, are before the meeting. A copy of those statements and reports was published in the annual report, which has been sent to those shareholders requesting a copy. It is also available on the company's website.

So we'll move to questions and comments on those documents. The purpose of this item in the meeting's agenda is to provide an opportunity for shareholders to ask questions, and make comments about the company's performance prospects, operating capability and management. The company's auditor is KPMG and is represented at the meeting today by Dr Andries Terblanché, who is here with us today. He will be available to respond to questions relative to the

conduct of the audit of the company's financial statements. The preparation and content of the auditor's report, the accounting policies adopted by the company in relation to the preparation of the financial statements, and the independence of the audit in relation to the conduct of that audit. All questions to Dr Terblanché should in the first instance be addressed to me as chairman, and if appropriate, I will request Dr Terblanché to address the meeting.

If anyone wishes to speak in relation to this item of business, please make your way towards the microphone queue. I will now take the first comment or question from the floor.

Question: (Mr Michael Perry, Australian Shareholders Association) Thank you Chairman. I have a comment and a question on your annual report. I found the annual report interesting, in so far as it describes your strategy very ably, but a little bit short on comparisons between last year and the year before, a bit short on the facts of the issues which caused some downturn in profitability. I know that those facts are readily available, they're on your website in the investor report, and I think Mr Hawker addressed this morning, very ably covered the gap. So there's no problem of lack of information, but I think you could have put far more into the annual report itself, so I draw that to your attention perhaps for next year.

I'd also like to ask a question. I heard Mr Hawker say that you're going to have a neutral carbon footprint within, I think he said three years, which is – five years, I beg your pardon, I wasn't trying to accelerate it, I just misheard you. But that really intrigued me, an insurance company with a neutral carbon footprint. So could we have perhaps a little bit more about the actual measures that you're going to put in place to achieve that? I must admit, it's a subject that is sort of totally foreign to me, and I'd like to learn a bit about it. Thank you.

J Strong: Okay. Thanks for the question. Can I first of all go back to your earlier question about voting procedures, which you mentioned, and Rowan said that we'd take it on board, but I'd just like to make a couple of comments also. We recognise that there are differing points

of view about how you can conduct voting, but what has happened over probably the last ten years, is that the overwhelming majority of votes are coming in by proxy. And whilst you could say well it's a nice exercise in democracy to let people at the meeting have a vote, what it means is that you have a much more complicated procedure, and it really doesn't reflect the will of the shareholders as a group.

Now, I know that there are all sorts of arguments against this, and you're saying well, it just gives people who go to the trouble to come to the meeting, to have an opportunity. We have thought about this, and we have followed the procedure that we are following at the moment for some years, after taking into account the factors that you mentioned before. So I just wanted to respond to that.

Now, can I go onto the rest of your questions. The annual report, the strategy and not as much comparison of the two years as you'd like. Well I think the best thing we can say is that we take note of that. Mike did attempt to address that in his opening remarks, which you acknowledged as well, so all I can say is we note your comments about that. And at each time we try to strike a balance between not blowing too much on things which have occurred, but something's been done about them. And also, how much we talk about the future and what the shareholders might expect for the future. But we note your comments.

In relation to the neutral carbon footprint, I think Mike would be very happy to tell you a bit more about that.

M Hawker: Thank you James, and yes Mr Perry, it's very interesting from an insurance company's perspective. Climate change is a critical component, or has a very critical impact on our business and on our customers. There's no doubt that from our research and from seeing the information that's coming through from historical claims development, that the impact of global warming is increasing the frequency and ferocity of storms, and with the increase in frequency and ferocity of storms, we're getting an increase of damage.

So some of the outputs you get, you're getting larger hailstones, which are creating more damage to buildings and property, and you see that on a more regular basis. We're seeing that when wind speeds above about 65 kilometres an hour, you are getting a six-fold increase in damage to buildings, because the building codes are not built to that sort of wind speed tolerance for the majority of Australia. And we're seeing an increase of wind speeds coming from the change of climate, and there's issues of storm surge. You're going to get longer droughts, and you're seeing longer droughts, and you're seeing greater precipitation in wet times, and seeing more frequent and higher levels of flooding.

All these impacts are just slowly occurring over a long period of time, but they are occurring. And so we can see that in our numbers, as they're coming through the claims cost. We think we have a role to play in being able to be more transparent about that long-term slow impact in the community, and to start making people aware of that – the community aware of that, our customers aware of that. So they can start to think about this is something we can do behaviourally to change that impact, and therefore reduce that risk over time, which we think everyone would benefit from.

So we've been quite vocal about this for about five years. Some of the big global reinsurers have been talking about this for about the last 15 years, and we believe we provide quite an impartial and quite an informed group in terms of being able to add to this debate in an objective fashion, and just seeing the financial impact and structural impact occurring.

Since we're concerned about it occurring, we therefore look at our own carbon emission footprint, and saying what can we do about reducing it ourselves. And we feel that by moving to a carbon neutrality position over the next five years, we'll drive a dual benefit, firstly of reducing carbon emissions, but secondly, changing behaviour in the organisation, which will reduce cost, so you'll get a financial benefit at the same time.

And there are many things we can do. For instance, airline travel creates a hell of a lot of carbon emissions. Changing the fleet and what sort of motor vehicles you use in terms of create different emissions. Changing your electricity usage and trying to work through how do you drive five star rated buildings. We've just moved into a five star rated building in South Australia, and we're going to move into one in Victoria over the next 18 months. Double sided paper, so reducing the usage of paper and trying to use electronic means, but there's a whole series of structural small changes you can make, which can add quite a significant difference.

And we also feel that the culture of the organisation is really critical, in terms of understanding. We're trying to help the community reduce risk, and we feel it's important that we can demonstrate that in a very overt way, for our employees to feel that we are following what we're saying in a public sense, and a real action in the organisation, so we get good alignment culturally through the organisation. So there's a series of benefits and drivers, which drive it.

Question: (Mr Joe Nagy) Thanks very much. Thanks for your indulgence. Some of my questions concern the auditor, and some of course, the board. The auditor's declaration of independence mentions contraventions relating to minor matters. What are these minor matters? The auditor's report also mentions auditor independence. I'd like to know how that's defined. On page 75, note 5, shows that KPMG, the auditor, has performed work other than audit for IAG. Is the board aware that this maybe a breach of the Sarbanes-Oxley Act, and Mr Chairman will probably explain that to the meeting? If so, how does the board feel about this? And more importantly, IAG states that it maybe expanding to the US, and if it does, will IAG as well as KPMG be breaching the US law?

I was in Pakistan last month, or two months ago, and I saw on TV several ads for IAG. I'm just wondering if that was this IAG? You might also, through Mr Hawker, explain a little bit more about your risk

activities. I apologise, but I'm still not aware just what risk activities IAG's involved in, other than what was mentioned, pricing.

Finally, it's been mentioned in your strategy – or rather your strategy says that IAG's expanding through acquisition. I hope the board realises, and I'm sure they do, that growth by acquisition is a risky strategy. It's like buying a used car, you never really know what sort of car you get, until you get in and drive it. Michael would know that, because he worked for a company called City Corp, which before that, when I was there, was called IAC, and it was a mess. So what I'm trying to say is this to the board, how will the board assess and analyse acquisitions? Thank you.

J Strong: Okay. Thanks Mr Nagy. That's quite a range of things that you've raised there, and I'll ask Michael to comment on one of them in a moment. In relation to the auditor, or the auditors, as you've mentioned, and I don't have it in front of me at the moment. But the auditor's declaration does say that there were a couple of minor matters, and as such it means that they weren't relevant to the conduct of their audit. They're the sort of things that they're not required to disclose, because they were minor, so I'm not too sure that there's much point in going on about that. I don't have a problem about it, but I think the very nature of what they were means that they didn't justify in any way disqualifying the auditors, nor were they sufficiently important to be required to be disclosed.

Question: Why would they mention them in the report?

J Strong: Well, I'll ask the auditor, just so that you get satisfaction.

A Terblanché: Thank you Mr Nagy for that question. Ladies and gentleman, we live in a world today which is increasingly regulated as well know, and every year they ask certain events that typically would take place, and I'll discard those in detail so you can see completely what I'm referring to, that made figures, some of those, technical breaches.

During the year we had two instances that that report refers to. The first one is a partner that lost a close relative, and by virtue of

bequeathment, inherited 364 shares. Now, the partner said I can't take those shares because the moment that I take receipt and ownership of those shares, we breach the independence guidelines. Now, we live in a world today where the legal advice is we have no other alternative for you to take receipt of the shares, and then to sell them immediately within an hour, which is what he did. But then when you do that, you trigger a breach of the Act in the process immediately. So when you go to the regulator and say well what do we do here, they say well maybe we've reached the point where those technical sort of instances, should not be reported in detail every time.

The second one relates to a demutualisation, a partner. And neither of these partners have been involved in the audit, I should say ever. A partner was allocated shares and he knew that he should sell those shares and he did. He instructed his broker. He received 404 shares. He instructed his broker to sell all 404 shares immediately. Of course, you would know that 400 shares being a marketable parcel, sells a lot easily than 404 shares, so the broker proceeded to sell 400 shares, and did not inform the partner of the 4 shares that were left in his name, never got in that space again.

When we did some detailed testing this year just to make sure that every single I has been dotted and every single T has been crossed, we came across the 4 shares that had been sitting there and never been informed by the partner that he was still owning these. Now this is 4 shares. You see the number of shares that we have on issue here, and the numbers of shares that you hold. Well guess what, that triggers another technical breach, so you run back to the regulator and say well I found another 4 shares of someone that's never been involved in the audit, and that's why the regulator said for these type of things, when you inherit shares, you have no option to take them but you sell them within a certain period, which is seven days. For those sort of instances, they provided for these. Call it an escape clause, that says maybe if we're going to start and burn paper just for these sort of technical issues, we've reached a point that it's not that

meaningful. So those are the two instances. There's nothing more to that. I'm happy to discuss it with any shareholder that wishes to get more detail on that.

J Strong:

Also just to give you more assurance, John Astbury, who is the Chairman of our audit committee, just reassured me that all of that was disclosed by KPMG to the audit committee.

In relation to the next part that you went onto Mr Nagy, on page 75 of the notes to our financial statements, there is a written declaration, which I'll read to the meeting, which goes to the very points that you're making. This is in relation to non-audit fees and work. "It is IAG Group policy that KPMG may provide assurance and other audit related services, that while outside the scope of the statutory audit, are consistent with the role of auditor. These include regulatory and prudential reviews requested by a regulator, such as the Australian Prudential Regulatory Authority. KPMG may not provide services that are perceived to be materially in conflict with the role of the auditor. It is IAG Group policy to contract KPMG on assignments additional to their statutory audit and assurance duties, where KPMG's expertise and experience with the IAG Group are important. The total fees for such services cannot exceed the audit fees without the approval of the IAG audit committee, and KPMG can be contacted only in relation to reviewing financial information, and not in its preparation. The board is of the opinion that audit independence was not impaired during the current financial year, as a result of the provision of these services".

So I hope that goes towards the point you're making there, which is something that's become quite prominent in recent years. One of the things is that the amount of audit work that we have to do under financial regulations these days is quite a burden, and quite costly for us, but we have no option. We have situations where we have auditors auditing auditors, so anyway, I won't go further than that. I'll bore you with my whingeing about it.

You made a comment about we might be expanding into the US and the Sarbanes-Oxley legislation. Well I certainly hope not, and I don't

know where that reference was, but we at the moment don't have any plans to go into the US.

Pakistan, I understand that we are aware of this and we are taking – it's not us by the way – and that we are taking protective action by registering our name and website just to protect it in that country. You made a comment that Mike might like to enlarge on what he means by risk activities, and I'm sure he can make a comment about the extent of due diligence that we do in any acquisitions too, just to give reassurance in that area. So I'll hand over to Mike.

M Hawker: Thank you James and Mr Nagy. I'll do those in reverse order, so just in terms of acquisitions and organic growth. The insurance business, one of the two drivers of the economics in insurance business is the diversification of risk. And there are portfolios of risk, which if you can analyse them very well and get a good understanding of those risks, which add real value to us as a company, if we can add it to other portfolios, which therefore diversifies that risk. And the second driver is growth over time, which gives the ability to keep your costs down and keep your price competitive to your customer base.

And the diversification risk does the same thing, and reduces the per unit capital per policy, therefore reducing the cost of that policy and keeping it competitive. So the whole insurance world is slowly growing and trying to consolidate to get this diversification benefit.

When we got to the stage in this country where our acquisitive growth paths became quite limited because of our sheer size in Australia and New Zealand, for competition reasons, so we then took the structural strategic choice to move into off-shore markets where we thought we had a competitive advantage. And we think we have two competitive advantages. One is in the emerging markets, where we're able to bring very solid pricing and risk management of motor car insurance into those markets, and add that skill to an existing portfolio of business. And where there's a diversification benefit in another market, it enables us to get this synergy benefit across jurisdictions,

and that's why some of the Western European markets have been of interest because of the substantial synergy you get on the capital line.

When we're thinking about the emerging markets, when we think about that, the market dynamics are vastly different to our market dynamics. Even though we've got great skill in motor insurance, the economics are very different. For instance, if you have a look at China, the motor accident frequency per annum is 100%. You are likely to have an accident every year, which is very different to here in Australia. And the economics of repair of the motor car are vastly different. The forward levels are vastly different. And so it is in our view, far better to buy into an existing portfolio of business, which has got a database of information which is cognisant and calibrated to those risks, than try and start from scratch in a greenfields, where your experience in Australia is vastly different.

And therefore what we do, we will never buy an insurance company unless we're able to do significant due diligence into its claims reserves and its risk pricing. And what we're looking for, is where we can do that due diligence, understand the risk pricing, believe we can add value in terms of improving the relative quality of that portfolio versus the marketplace, then that is where we – and we can get it at the right price – then that is where we acquire businesses. And that's why it takes quite some time to do that, and it's taken us two and a half years really to find opportunities in Asia after a significant amount of work and activity. And it's taken us about two and a half years and the same in Western Europe. So there's very long lead times to these outcomes.

But we feel that in the Asian markets that now we're there, your high growth markets, you do have an opportunity to improve the competitiveness of those markets because they're quite immature. I'll give you some examples. The Chinese general insurance market had no actuary employed three years ago in the marketplace, so they're very undeveloped in terms of their maturity and the use of insurance.

So there's a huge opportunity for us to bring OECD mature skills into those markets profitability.

Just on the risk activities, our business is a risk management business. We essentially monetise risk. We get premiums in today, and whilst our costs occur through time on the policy, and that's determined based on all sorts of different risks. So our skill set is being able to price that risk today and charge premium for customers, to cover that future claims cost. So we monetise all sorts of risk. So we are a risk management business, so when I talk about involvement in risk activities, it is the whole gamut of management of risk, whether it be the risk of climate change, the risk of crime, the risk of accident, motor accident frequency, the risk of workplace injury. They're all different types of risk, which we try and monitor, manage and price upfront, and then manage that process through time.

And we see that there are a substantial amount of information where we are trying to help the community reduce those risks, and some of the risk activities we're involved in, in a philanthropic sense, is where we can use that information to try and reduce crime rates in certain areas, to try and reduce accident spots, high accident spots on freeway design, and how we can reduce workplace accident frequency by better risk management skills in companies. And it's quite interesting. The insurance industry, if you think about it, has been the developer of building codes, invented the fire brigades, started seatbelts, all these things came from the insurance industry trying to reduce risk in the community. So when you think of it from that perspective, our business provides a fantastic community service, and really that's a fundamental ethic of why most people work in our company, is because of their wonderful ability to be able to provide that.

J Strong: Thanks Mike. Could we have microphone number one again, thanks.

Question: (Mr George Fox) Mr Chairman, you're a great company, you know what you're doing, and I think you're excellent. I insure with you and no other. There's one other comment I'd like to make. You don't really know what you're saying about climate. The whole business has

been distorted by an incorrect statement by the United Nations. It's a great, great pity, but please look at it again, because it is a very complicated business, and it is extremely complicated and CO2 is a minor gas, which is a great fertiliser for growth on the ground and in the sea. But it is not the cause, and I will provide further information to Sam Mostyn here, and I think you Mr Michael Hawker for the interest you have shown in this. That's all I have to say Sir, but it's important that you really understand what you're doing. You're going to hurt yourself if you go the CO2 way.

J Strong: Thank you very Mr Fox. I understand that you've been engaged in some correspondence with Mike Hawker, and thank you for that. We recognise that there are a range of opinions about this, and we are following a course which we believe in at this stage, but we'll keep the matter open to review and I'm sure Sam would welcome your further comments.

Audience member: [inaudible].

J Strong Yes, understand that. And otherwise thank you very much for your complimentary remarks. Thank you Mr Fox.

Could we go to microphone number two.

Question: (Mr Jack Tilburn) Thank you ladies and gentleman. Just one small apology to my fellow members and owners of this company. Sorry just to hold you up, but I have got two questions followed by another two I think on the financial account. Like you, we can only come here once in every 365 days. So here's mine please, Mr James Strong. I think Mr Hawker will have to help out and he's on \$60,000 a week, so I'll make him work for it.

The first big question is, in his address on page 15, quote Mr Hawker speaks of the legal problems associated with Tort reform. That's a terrible big area that, indeed, and an insurance margin of 18%. Please explain the Tort reform Mr James Strong, through you to Mr Hawker, and would you give us some clarification of what you mean by the

words insurance margin of 18%, as we owners here today maybe profoundly ignorant. I am, it's why I'm asking the question.

And number two please Mr James Strong. On page three you have a graph showing customer satisfaction index, re one motor vehicle insurance, re two house insurance. In the year 2005 you got satisfaction of 81%. However, in year 2006 you were down 1% to 80%. Now I find this customer satisfaction index could be somewhat dubious, which means questionable and sceptical and devious, not straightforward, because on the contrary view, the dissatisfaction index must be 20%. So 20 out of every 100 claimants for motor vehicles insurance and house insurance is disappointed and dissatisfied with the IAG company. Of course, is there fraud connected to this, or is there misappropriation of money, or is there even corruption? Is this as good it gets? Is this the insurance industry's best practice and benchmarking? What can you state? Thank you.

J Strong: Thanks Jack. Just to show that Michael earns every one of those dollars, I'll pass it straight to him. Thank you very much.

M Hawker: Thank you very much Chairman and Mr Tilburn. Firstly, just on Tort law reform. There was a substantial amount of legislative change in all the State Parliaments around Australia following the consequential outcomes of the collapse of HLH Insurance, where at one part of their portfolio they were fundamentally underpricing the risk that was incurring from liability claims, public liability claims in particular.

And so there was a period through to the 1990's, where the aggregate claims costs in liability claims was growing faster than inflation and faster than the rates that they were putting premiums up. When they went into liquidation, then there was a substantial re-rating of that, a step change re-rating of that marketplace, which people suddenly are very concerned about, saying that there was – was no longer could afford insurance for many of the not for profits who had a school fete, and some of those outcomes. And that was really driven by the underlying claims costs and community behaviour, where this litigation

community behaviour was starting to grow at a rate faster than people willing to pay in terms of premiums.

And so you had this community in balance, where the community's saying I can't afford the premiums and the premiums were reflecting the risk. And so the governments en-masse around Australia decided to see can we re-balance what was seen at affordable premiums and appropriate claims payment for people who have a public liability issue. And that re-balancing was in the form of Tort law reform, and there was quite a lot of legislation put in place over 2002-03 years, which tried to deal with that.

Some of the issues for instance, were some things put in place where you couldn't claim for damages if you hurt yourself in the act of committing a crime. If you had to take some personal responsibility if you were drunk when you hurt yourself, or you were under the influence of drugs, some of those things which previously people said you're able to get some sort of compensation through the behaviour. So in New South Wales I think, the Government called it the personal responsibility bill, in terms of trying to reshape some community behaviours. So that was the impact of Tort law reform, and that has slowed down the rapid rate of claims costs development, and has put it back to a more even keel. And now you've seen very good coverage and provision of insurance premiums, and insurance premiums have come down.

And under the New South Wales, I know just off the top of my head, in New South Wales when they brought the law in, they expected a reduction in premiums of about 11%. And they've had a reduction in premiums now, about 18%, which is reflected in the falling claims costs. Premiums have followed that down, and that's become more affordable and there's more availability of insurance.

The second one, insurance margin. The insurance margin is just a straight ratio of the insurance profit over the premium written, and the insurance profit is a combination of two things. It's the underwriting result, which is the difference between premiums coming in and claims

costs going out and all expenses, plus the investment earnings we earn on the funds held aside for future claims. So that's what the insurance margin is, and you need a high insurance margin for a business which has a lot longer risk. So if you write a policy such as a Workers Compensation policy this year, someone may claim on that policy in 20 years time or 30 years time, so you have to put some money away for that future claim development. And because it is more uncertain because it's further out in the future and more uncertain, there is a greater risk so you need to hold more capital against that, therefore you need a higher margin to get the same return on risk. If you have a one year policy, you have less capital because the risk is more defined and more actuarially certain. So quite a difference.

And that's why there's a difference in insurance margin between insurance companies, depending on what their risk profile is. If they've got a lot of long risk they need a higher insurance margin, if a lot of short tailed risk, ie the risk finishes in a year, they need a lower insurance margin to generate the same return on capital. I hope that gives you some sort of sense of it.

Just in terms of customer service indicators, we have a number of customer service indicators right through our businesses, and we try and run them on the same basis over a longitudinal sense. And they pick up a whole series of measures and many of them are telephone calls, surveys, random surveys, which we get a range of between 0 and 10, and we typically only count good customer satisfaction sort of 7, 8, 9, 10. So if you're sitting in 5, 6, you're basically saying I'm comfortable but I don't think it's outstanding, I don't think it's bad. So it doesn't mean that 20% of people think it's awful, it's more it's a graduation within that sphere. And with four and a half million customers, unfortunately we find we can't get 100% right with every one, and we very hard to do that. And as you can see in our complaints development, they've been falling and it's done to

something like .018% of all policies. So it's a very low percentage, but still it's something which we're constantly trying to improve.

J Strong: Can I go to microphone number one?

Question: (Mr Brian Gates) Good afternoon Mr Chairman. Before I start, I'd like to congratulate you on your reduction in environmental impact statement, it's on page nine of the annual report, and commend you on your initiative on the non-executive directors induction training course, which is on page 32 of the management review.

I received a letter the other day from a company named Direct Share Purchasing Corporation Variety Limited. Coincidentally, a few days I received a letter from BHP Billiton warning me about this company. And surprise, surprise, the gentleman who is a director is Mr Tweed, our old friend. What I'd like to suggest is could you send a letter to your shareholders or for the open road, warning them of this gentleman's activities, and also could you push the legislation banning this type of operation. Thank you.

J Strong: Thanks Mr Gates. Well unfortunately he's still around, yes. Thanks for your comments on the environmental impact and the non-executive director training. There's a long history of Mr Tweed in relation to this company, and what we've done about it, so I'll ask Anne O'Driscoll to cover it just so the fall background is covered.

A O'Driscoll: Thank you Mr Gates. Thank you Chairman. And yes, unfortunately David Tweed is now in the process of sending letters to a number of our shareholders offering to buy shares. He first did this within the first year of our listing, and we found that the people who actually unfortunately take up these offers, are old people who have effectively got shares allocated under mutualisation. Those shareholders who have been on our register since 2000-2001, have been written to individually on two occasions to actually tell them about Tweed. We've also found that because when Mr Tweed issues letters, he tends to issue them in batches over a long period of time. It's very hard for us to get a letter out that actually ties up with exactly when he sends it.

So in August 2005 I think it was, he started sending another batch of letters. Those letters continued to get sent right through until about April-May 2006. So as it happens, unfortunately the people who would most likely fall prey to his offers, are also the people who would probably not remember they got a letter six months before, and they certainly haven't remembered they've got a letter from us on two occasions.

One of the things that we find is that it's very expensive to send a letter. There are 950 odd thousand shareholders, so to send a letter to every single one of those costs an awful lot of money and we've found that it's not very effective. What we have found is actually more effective, is to get a lot of media coverage and every time we get a registered request from one of Mr Tweed's companies, we issue media releases. We try and follow those up when we see the letters are coming out in particular post codes, and get media coverage in those local areas.

At one stage last year we counted over a period of time, we'd had 50 separate items in newspapers, local and national media, also on radio, also on TV, warning people of Mr Tweed's activities. He does actually use a number of different companies, and it just does make it difficult. We also put warnings up on the Stock Exchange and on our website for those that would use it.

Unfortunately a number of shareholders still use his services, and they're about 5,500 – 5,800 last year, who fell for it. Which is actually not a lot out of 950,000 but it's still unfortunate. We have continued on an ongoing basis to work with the regulators, the Australian Securities and Investments Commission in particular, to assist in trying to stop these activities where they feel they're unfair.

The Government took action on this in 2003 specifically relating to Mr Tweed, and actually required that on those letters he actually puts the market value of your shares at the time he's sending the letter as well as the offer price. So we would hope that anyone looking at those letters will very clearly see that if the market price is – say you have a

thousand shares, and the market price is about \$5.60 a share, that's \$5,600 and his offer price is \$3.00, that's \$3,000. And we would hope that anyone looking at that letter simply would actually be able to see that and react to it.

The Government does keep an eye on what Mr Tweed is doing. About two weeks ago they actually banned him from holding a financial services license. However, that does not deal with the issue of the offers he makes to this company's shareholders, and it doesn't deal with it because the Government is afraid that if they put in legislation banning exactly what he does, it will actually make it really complex for one of you to give your shares to your children or to your spouse, or change the details of what's called an off market transfer. And that's basically the reason the Government has given us for not taking further action at the moment, but we still monitor it very closely.

J Strong: Thank you very much Anne. Could I go to microphone number one again?

Question: (Dr Zahir) Sorry. Mr Michael Hawker, I'm very happy that you just mentioned about the climate change and the risk of the future losses and things. So of course, as a natural therapist, I treat the patient, the cause, not the symptom, like the general practitioner does. So this way I would like to know, we are too small people. Everybody hears us but nobody listens to us. John Law was putting a question on the radio, of course the radio personality John Law, that who is silly? Well everybody say it from everywhere something. I said I'm sorry, I cannot lie, otherwise I was a politician myself. So this way, I suggest to all listeners that our top politician including our friend John Howard, he is silly. He said how. I said he is selling our natural gas to China and to America, of course they don't want to keep it, especially Schwarzenegger close to the border, and to cause danger to the tourists, so they had no place to put underground. Otherwise they inject underground. And these two countries, they will sell in the near future to our children and their children's children ten times more.

We have to keep the gas and prove which our politicians are silly is, says they are selling our clean gas and they are buying \$1.20 to \$1.40 a litre stinky diesel. What is your support to reach our cry to the ears of the politicians. I know God gave them two ears, to go one end and come out from the other ones. Thank you very much.

J Strong: Well thank you Dr Zahir for those remarks, which I'm sure everyone can take on board. I don't think I want to go into a discussion about whether politicians are silly or not. I think that's very dangerous territory, but I did once hear a view expressed that commonsense and politics are mutually exclusive, so I won't go into that any further either.

Could I ask for a question on microphone number two, thank you?

Question: (Mr Jack Tilburn) Thanks Joe, and through you Mr James Strong and sometimes I have backers and followers, disciples, so I'll finish on these two questions, though I have a very important comment to make, which Mr Hawker and his team will be very pleased about. And then two questions, one from a fellow European member who came and saw me a while ago, and I'll have to pay attention to him. It's quite a simple question.

Sir, I was taken with the giant, giant advertisement that was in the Sydney Morning Herald last Tuesday, lucky 7<sup>th</sup> of November, because 7's my lucky number. I took up the advantage of ringing up, and I'm happy to say as a comment only, there's no special question about it, that you say IAG Mr Hawker are number one in the compulsory third party greenslip. Well they are, they beat my AAMI price, and then I asked the nice man what about the comprehensive car insurance, and they beat AAMI too. So I'm going to be a happy changeover from AAMI over to IAG on greenslip and comprehensive car insurance.

J Strong: It's about time too, Jack. It's about time.

Question: I have a simple question here on my birthday. On five year financial summary found on page 40, quite a good summary, thank you. Now, the net tangible asset on the very last line Mr James Strong, is only, I

think, a low \$1.22. Why is this is low? Is it a healthy figure? Is this as good as it gets? How can IAG increase the net tangible asset in case of a friendly or hostile takeover? Because the hostile or friendly takeover will be looking at our net tangible asset, which is a very, very correlative and very, very important figure for a hostile takeover or a friendly takeover of IAG, which may or may not occur. So that's the net tangible asset figure put to sleep.

Now my friendly European man came over and he said Jack, why isn't IAG in the European Union? Why isn't it there on that map that was shown on the screen? Well I said look, I'll ask about that. So through you Mr James Strong, no doubt you will have a good generic reply. Will you be going and looking up the European Union countries? I think there's about 13 or 15 now, with perhaps some 400 million of potential IAG customers. Thank you very much.

J Strong: Thanks Jack. Thanks for your comments about the advertisement, and we welcome your business. I think we'll again test Michael by giving him both your net tangible assets question and the European one as well. Thanks.

M Hawker: Thank you Mr Tilburn. Just on the net tangible assets, the net tangible assets of insurance companies are somewhat complex, in that we hold quite a portion of their asset strength in our claims reserves, and it doesn't sit in that net tangible asset backing line, and we carry also some goodwill. In terms of our price, the net tangible assets we actually are well priced, so I think from a takeover point of view, people would need to pay a good premium to take us over. So I think that we are using our net tangible assets and leveraging them appropriately but also conservatively to the benefit of shareholders.

Just on the European aspects, our primary interest in the European markets is in the UK and UK markets, the Scandinavian, and they're our primary interests. And then we have a sort of a secondary interest in the Benelux Countries, and maybe Iberia, and then a third level of interest sort of sits in Central Europe. And that's really a function of firstly diversification of risk, and secondly the development of those

markets in motor insurance. And the motor insurance markets in Central Europe are still very closely aligned with local insurance companies, with very little turnover, and they haven't yet moved to a point of electronic distribution and direct distribution, which we think long-term, the markets will move to. Whereas the UK market is in a stage of change, where the delivery of insurance to customers is changing in nature, both through direct mediums and through different types of intermediaries. So there's an opportunity to enter that market and bring what we think is a very mature market in Australia, capabilities into those markets successfully.

J Strong:

Okay. Well there appear to be no more questions, so before proceeding to the close of the meeting, I'd like to take this opportunity to note to our shareholders that our auditor, Dr Terblanché, this is his last day as auditor of the company under the requirements for rotation of auditors. The Corporations Act requires it, and we're very sad about that, because I'd like to say that we believe that Andries Terblanché has been an outstanding auditor for this company. He's been fearless and he's been very constructive in his whole approach to dealing with the company. He's given us some very good critiques based against international experience, and his whole contribution has been very much appreciated.

We look forward to the future to his replacement, Mr Brian Gregg, who also has extensive experience to ensure that the company is properly audited to take over in Andries' place. But thank you very much Andries for your contribution to our group. It's much appreciated.

That concludes the formal business. Just in relation to voting, can I ask that you ensure that you've handed all your voting papers to the returning officer staff. I direct that following their collection, the voting papers and proxy holder voting papers, which have been lodged by shareholders at today's meeting, be counted as expeditiously as possible. As you know there's a very large shareholder base and the number of shareholders attending today, so that polls will take some time to count, to ensure that it's complete and accurate.

As I indicated earlier, you can see the results and we'll provide them to the ASX as soon as they're available. They'll be placed on our website and at our company registered office in King Street by tomorrow 16 November. So I'd just ask that those last few voting papers be collected. If anyone has a voting paper not collected, could you raise your hand, and make sure that it's all counted. There doesn't appear to be any – no. So I therefore direct that the polls on resolutions one to three are formally closed. And ladies and gentleman, I'd now like to declare the meeting closed with the exception of the counting of votes and the announcement of the results of the polls.

On behalf of the board and directors of the company, I'd like to thank you for attending today. I know for some people you've travelled a distance, and I'd like to say that we still enjoy annual general meetings, because they are an opportunity for people to express their views. And I'd like to say I appreciate the courtesy and the way in which people have conducted themselves today. It makes the meeting enjoyable and of value to everyone, and it's a nice way to conduct business. Thank you very much. I declare the meeting closed.

[END OF TRANSCRIPT]