

**Start of Transcript**

James Strong: Ladies and gentleman, I would call the meeting to order if I may. To everyone present here today, welcome to the 2008 annual general meeting of shareholders of Insurance Australia Group Limited. It is past the appointed time. The company secretary has informed me that a quorum is well and truly present, and I declare the meeting open. My name is James Strong and 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 would now just like to introduce the other members of the board and the management who are present. Just going across from my left, Philip Twyman, Anna Hynes, Hugh Fletcher – they are all independent directors of the company. Michael Wilkins, the CEO and managing director, myself, Glenn Revell on my right is the company secretary, and then three other non-executive directors, Brian Schwartz, Phillip Colebatch and Yasmin Ellen.

I would also like to welcome shareholders who are viewing this meeting via the webcast, which has been our tradition in recent years.

Before we commence the business of the meeting today, there are two housekeeping matters I would like to mention. As this is Remembrance Day, we will observe a minute's silence at 11am as is the honoured tradition in this country. For the first time this IAG is implementing use of online voting technology.

Shareholders, corporate representatives and proxy holders attending this meeting were provided with a keypad and a data card when completing the meeting registration process. The keypad will be used to record your voting intentions on each item of business put to the meeting. To ensure everyone is comfortable using this technology, we will conduct a trial one before starting the voting process on the items of business before this year's AGM. It is quite a simple operation, but we will have a trial run.



Representatives from our share registry provider will also be available at this time to assist shareholders if that's required.

The introduction of the keypad technology will help to speed up the counting of votes as compared to the traditional paper based method. If you are unable to remain for the duration of this meeting and vote on each resolution when the polls are taken, you will still be able to register your voting intentions on a voting card at a desk located just outside the auditorium when you leave the meeting. I now declare the polls to be open.

I would like to provide a brief overview of Insurance Australia Group's performance for the 2008 year. I will then ask our chief executive officer, Mike Wilkins, to provide a more detailed review of the operations and financial performance and strategy of the company.

Ladies and gentleman, in this address I am seeking to review the year just gone and to give some comments about what's happening in the group today. Before we commence the formal business of the meeting today, I would like to provide a brief overview of some of the recent initiatives the board and management have implemented to improve the performance of the Group. As I mentioned, I will then ask Michael Wilkins to provide a more detailed review of our operational performance and strategy, and an update on the Group's outlook for the current year, which is quite important.

There is no doubt the 2008 year was one of IAG's most challenging. A wide range of factors severely affected our company's performance, resulting in a very disappointing financial result. Higher claims costs from more severe and frequent weather events, coupled with the challenge of operating in soft insurance cycles and weakened global financial markets, all combined to reduce profitability across the whole Australian general insurance industry.



In addition to those industry-wide challenges, one part of our operations in particular has performed below expectation. This business, which is our mass market distribution operations in the UK, was affected by the continuing soft cycle in the UK's private motor market, in conditions which have been much slower to recover than was widely anticipated.

While recognising that all these factors, both external and internal, have adversely affected our financial performance in 2008, the board is not making excuses. Rather, we accept responsibility for this performance, and have taken a number of actions in response. None of the initiatives that we have taken have been easy. They have included changing a large part of our management, a number of cost saving initiatives, which have regrettably included some staff redundancies, and the sale of some parts of our business. However, with these initiatives in progress, the board and management team are confident that we have entered this current financial year with an improving operational performance, which in turn will lead to improved shareholder returns.

Our confidence is driven by a number of factors. First, we believe the revised corporate strategy outlined in July by our CEO Mike Wilkins, will restore value and profitability. We are pleased with the progress made, having already implemented a new business operating model and substantial cost saving initiatives, on which Mike will provide further detail in a few minutes. We are also making progress with the sale of some of the parts of our UK operations. While these changes will take some time to work through to the company's bottom line, we expect to achieve an improved insurance margin for the 2009 financial year in excess of 10%. This is significantly higher than the 6.1% we reported in the 2008 financial year.

Secondly, shareholders should have confidence that IAG remains strongly capitalised. This is particularly important point given the uncertainty created by the unprecedented turmoil in global



financial markets. IAG has a strong balance sheet and holds capital at a level which is surplus to our regulatory requirements. This is without having to rely on any of the \$550 million of pre-funded contingent capital, which the Group had previously raised in 2005 to be available for the future, should the need arise, at a time when capital may become a very scarce and expensive resource, such as now.

We also continue to maintain the highest financial strength ratings from Standard & Poor's of any Australian based insurer, despite a one notch downgrade to our ratings during the year. Each of our key wholly owned insurers has a rating of 'AA-' with a Stable Outlook, which is a reflection of their very strong financial condition.

And thirdly, we have seen significant change in our executive management team. We have a new chief executive officer, Mike Wilkins, who is extremely well qualified to lead IAG as it embarks on its new direction. Mike has more than 25 years of insurance and financial services experience. Before joining IAG 12 months ago as chief operating officer, he was managing director of Promina, which was the former owner of insurers AAMI, Vero and Australian Pensioners Insurance Agency.

I would also like to acknowledge our staff, who have continued to act professionally and with our customers' interests at heart, despite the challenges that we have faced as an organisation.

Some comments now on the board. In addition to the management team and operational changes mentioned above, the board is also undergoing change and renewal. Neil Hamilton and Rowan Ross, both of whom have served on our board since prior to its listing as a public company, retired at the end of August. These directors were instrumental in guiding the Group through a period of growth and development after demutualisation, and I thank them for their contribution.



In line with our desire to continue to strengthen the composition of the board through the addition of new members with relevant experience, Philip Twyman has been appointed as a director.

Philip has extensive business experience, particularly in the insurance sector, working in significant roles in both Australia and the UK, and you'll be hearing from Philip later in the meeting.

As outlined in the annual review, I am standing for re-election this year, as part of the normal rotation of directors. This decision was made after consideration because the board and management believe it is important to provide continuity and stability in the role of chairman during the implementation of the major changes in our company's management and strategy. We recognise, however, that under our board's tenure policy, if I am re-elected, this would be my last term as a director. With this in mind, the board is addressing the need for a planned and orderly succession in the role of Chairman, in accordance with proper governance principles.

I also anticipate that there will be additional appointments to the board of directors with relevant experience in the short term. We will keep you informed as these changes take place.

I would now like to make some comments about the QBE takeover proposal, which occurred during the last year. Most of you would be aware that QBE Insurance Group made, and then withdrew, a proposal to acquire IAG earlier this year. Given this proposal generated such a great deal of interest from shareholders, the market and the media, I thought it appropriate to provide some remarks in this address.

Contrary to what's been reported, QBE did not make a formal or complete offer, and declined to put a general takeover offer to IAG shareholders, which could have been judged by shareholders on its own merits. Instead, they insisted on requiring a unanimous recommendation from the board of IAG to provide the support necessary to carry a scheme of arrangement with shareholders. It was the board's view that QBE sought to take advantage of the



then current negative insurance cycle in Australia to attempt to acquire our company at a very low price, without offering a satisfactory premium to shareholders in IAG.

The proposal did not adequately reflect IAG's underlying value or the significant synergies and value which could be created by combining the two companies. The IAG board acknowledged at the time, and still believes, that substantial benefits could result from combining these businesses and indicated its willingness to explore these potential benefits. However, the proposed price was too low to adequately reflect the inherent value of IAG's businesses and brands. The board could not recommend the proposal to shareholders and, as a result, QBE decided to withdraw it.

Since the proposal was withdrawn, we have focused on driving forward with our new strategies to enhance shareholder value and, as mentioned, we are pleased with progress to date.

Dividends. The board has decided it is no longer sustainable to continue paying dividends that exceed 100% of our profit. As a result, we paid a fully franked dividend of 9 cents per ordinary share on 3 October, bringing total dividends for the year to 22.5 cents per share, fully franked. This was 7 cents lower than the previous financial year. Moving forward, dividends will be based around a target payout range of 50%–70% of reported cash earnings, and will continue to be fully franked for the foreseeable future.

Looking forward. In closing, I would like to restate that improving and sustaining shareholder returns is the main priority of the board and management. We will be measuring our financial success based on two key targets, which we aim to achieve through the cycle. That is, top quartile shareholder returns and a return on equity greater than 1.5 times our weighted average cost of capital. This equates to a return on equity of around 15% through the cycle.



I am confident we are implementing the right strategy and operating structure and have the management team to improve our financial performance. IAG remains very well capitalised and I believe the actions we are taking should give shareholders confidence that we are rebuilding to create a stronger future for the Group.

I'd now like to ask CEO Mike Wilkins to make a presentation to you, before we come to the formal part of the business of today. Thank you. Mike, could you come.

Michael Wilkins:

Thank you James and good morning ladies and gentleman. Can I also extend my welcome and thanks for your attendance at our annual general meeting today. Before I start my presentation I'd like to say that I feel very honoured to be leading a company such as IAG, a company with a strong heritage, with iconic brands and with a long track record in helping our customers in times of need. I think that's important and it's an important role that our organisation plays.

During my presentation today I plan to discuss three things. Firstly, I want to talk about IAG's performance for the 2008 financial year and provide some detail behind the factors that impacted that result. Then I want to talk a little about the revised strategy and operating model that we've put in place to improve our performance, and finally to talk about the outlook as we see it for the current financial year.

As mentioned by the chairman, our financial performance for 2008 was disappointing. Both external and internal factors contributed to this result. We were affected by continuing soft cycles in commercial insurance in Australia, and to a lesser extent in New Zealand, and the UK private motor market continued to be challenging. In line with our peers our businesses in Australia, New Zealand and the UK all experienced increased costs related to storms and other natural perils. In our business we also started to see early signs of economic and demand driven inflationary pressures in some of our claims costs, and I think it's fair to say



that in hindsight our expense structure in Australia was too high and frankly we were too slow to put rate rises through in some parts of our business. And all of those factors were further exacerbated by the impact of weak international investment markets.

As an organisation, we've acknowledged that we need to do better and let me assure you we can. We've already taken a number of actions to improve our performance, which I will discuss in a few minutes. But first, what I want to do is provide some further detail on our financial performance for the 2008 financial year.

Starting at our revenue line, we grew our top line revenues or our gross written premium by 5.6% during the year and that now stands at about \$7.8 billion. However, our insurance margin was down by \$319 million to a margin of \$448 million for the year. This represents an insurance margin of 6.1%, which compares with 11.4% in the 2007 year. I've already indicated some of the factors that had an effect on that. Increasing claims costs from natural perils, and while paying claims for this type of damage and other natural perils is a normal part of doing business, I've got to say that the 2008 financial year was unusual in anybody's language.

IAG in that year incurred \$502 million in natural perils claims costs, which is 22% more than we incurred in the previous year, and I think it's important to note because this goes to pricing. It was 57% or \$182 million higher than the allowances that had been made in terms of the pricing for our products. We also incurred \$122 million in adverse impact from a widening of credit spreads. Interest rates had gone up and that does impact the investment income that we report, and that reduced our insurance margin by about 1.7%. Having said that, I think it's important to point out that I feel very comfortable with the asset quality that we have inside our investment portfolios and we do actually expect to recover that notional loss amount as these securities mature.



Finally, impacting our results were reserve results, which were 16% lower than that reported in the 2007 year. At the same time as all of that was happening to our insurance result line, the income we received on investing our shareholders funds was also significantly lower at \$24 million compared with \$301 million for the previous year, and that was all about what was happening in international investment markets.

We also incurred one off impairment and restructuring costs in the 2008 financial year associated with our revised strategy, which I'll take you through in a moment. When all of that is combined with the financial effects of operating in an environment characterised by continuing soft cycles in some of our key markets, another year of high claims costs from natural perils and volatile investment markets, these factors contributed to the group reporting a net loss after tax for the 2008 financial year of \$261 million.

In this context the board decided to declare a reduced final dividend of 9 cents per ordinary share. That takes the full year dividend to 22.5 cents per share fully franked, which is a reduction of 7 cents per share from the previous year. We took this decision because we felt it was not prudent to continue to pay dividends in excess of our earnings.

As I mentioned earlier, we know that we can do better. We believe that the initiatives we're taking coupled with the improvements in our operating environment will help us improve our financial performance and deliver an insurance margin in the 2009 year of in excess of 10%.

In July we announced a number of changes to our strategy and our operating model, which were communicated in a letter from the chairman to all shareholders at that time. In that letter, we confirmed our strategic decision to remain focused only on general insurance rather than branching out into other classes of insurance, or indeed into other businesses. We did, however, refine our corporate intent, which is to be a portfolio of high performing customer focused diverse operations providing general



insurance in a manner that delivers superior expenses for our customers and creates value for our shareholders.

As the chairman has indicated, we've also refined our targets and we now focus only on two key measures, which we aim to achieve through the cycle. These are to achieve a return on equity of greater than 1.5 times a weight average cost of capital, which in our terms translates to a return on equity of around 15%. And we believe if we do that, then we will achieve our second hurdle, which is to deliver top quartile total shareholder returns again through the cycle.

In July we recognised that we needed to make some tough decisions to ensure that we got the business fundamentals right and to set a course for the future. We now have a clear focus on four strategic priorities. The first of those is improving our performance in our home territories of Australia and New Zealand. Secondly, we believe that we need to continue to pursue selective international growth options, because we certainly see room for some international growth. But we recognise that we need to be more tightly targeted around that and for the foreseeable future we'll be concentrating on Asia, as well as some other narrow specialist opportunities where we can add value for the transfer of specialist insurance skills, particularly in the areas of underwriting, pricing, claims management and actuarial activities.

This means that we are scaling back our operations in the UK to become primarily a specialist motor insurer through our Equity Red Star business. And we are currently looking to sell our mass market distribution businesses, Hastings, Advantage and the branch network of Equity Insurance Brokers.

The third area of concentration is moving to a simpler and more devolved operating model, which is very much aligned to our customer needs and finally we are looking to drive efficiency in all parts of our business, with a clear focus on cost reduction initiatives.



The new operating model that we've adopted further devolves responsibility and accountability as close to the end consumer as possible. We've removed duplication of back office roles and our corporate office has been restructured with a well defined remit as an active portfolio manager, all designed to deliver value to the group and importantly to our shareholders.

The impact of all of that was a reduction of around 6% of our Australian workforce. However, in making that reduction we attempted to minimise the impact on external customer facing roles. Those initiatives are delivering \$130 million in annual pre-tax run rate savings in our business in Australia alone.

Along with simplifying our operating model, we also simplified our management structure and I believe that we now have in place the right mix of industry and relevant experience in our executive team. An important addition is to note that we recently appointed a new member to that team. Andy Cornish, who commences as chief executive of our Australian direct insurance business in January of next year, is a 32 year veteran of the general insurance industry with a strong track record in successfully growing profitable businesses across all insurance classes. Most recently Andy was with the second largest general insurer in the UK, which is RBS Insurance, which is part of the Royal Bank of Scotland Group, and important that group includes Direct Line, for those of you who know that business.

With the addition of Andy, I believe that this is a strong management team with the experience to improve the performance of the group, and I've got to say that I'm proud to be part of that group of experienced professionals that are now in charge of your company.

Whilst we've made a number of changes in our business focus, our commitment to improving our performance against non-financial measures remains as important as ever. We made progress against many of our sustainability measures during the 2008 financial year. For example, in line with our 2012 carbon neutral



goal we've reduced our CO2 equivalent emissions and we continue to support initiatives that will improve the energy efficiencies of the buildings that we occupy, which benefits not only the environment but also reduces our own operating costs.

We're proud to have again been included in the global 100 most sustainable corporations in the world, and in the Dow-Jones sustainability indices. Whilst recognising that these benchmarks illustrate our leadership, I've got to say that the bar is and remains high. We know that we must continue to rise to the challenge of exploring new ways to maintain our leadership position by delivering superior outcomes for our customers, employees and importantly of course, for our shareholders.

In some ways coming up with the new strategy that I've briefly outlined to you and a new operating model was the easy part. Delivery as in all things is the hard part, but I'm pleased to report that we're making good progress against that delivery. Our revised operating model was up and running by the end of September. At the same time the majority of our cost savings initiatives were also implemented by the end of that month. As mentioned, we have now appointed a new chief executive to manage our largest business, the Australian direct insurance business, and Andy brings with him significant experience.

We're also on track with pursuit of our select growth options in Asia. We're working towards finalising our general insurance joint venture in India with the State Bank of India, which we expect to have up and running during calendar 2009. And yesterday our Malaysian joint venture signed a memorandum of understanding to acquire the general insurance business of MAA, as well as a stake in its Takaful or Islamic insurance business. That's an important step forward for our business in Malaysia.

In the UK, Equity Red Star continues to perform well and our plan to exit our mass market distribution businesses, Hastings, Advantage and the branch network of Equity Insurance Brokers, is well underway. Discussions are continuing with interested parties



and we're exploring all avenues of maximising shareholder value including selling the businesses as a whole, or selling them separately. We're pleased with the progress that we've made to date, particularly given the prevailing market conditions, and we expect to provide an update to shareholders on the progress of this divestment by no later than when we report our half year results in February of next year.

We've also said that we'd exit our Lloyds managing agency and specialist Asian syndicate Alba, as it was no longer required to support the group's Asian businesses. As a result, that syndicate stopped writing new business in September and is now in run off. Diagonal, which is its managing agency, will also be closed as the syndicate is transitioned to another managing agency.

Our prime focus for the foreseeable future is on our home markets for Australia and New Zealand, and in that regard I've already mentioned the cost savings initiatives that we've put in place. In New Zealand the implementation of cost savings during the 2008 financial year are expected to deliver around \$16 million in annual savings in the 2009 year, in a business that's looking to restore profitability by growing its premium base on the back of hardening rates and through the re-launch of its State Insurance brand.

And our Australian intermediated insurance business, CGU, we continue to maintain pricing discipline and to contain expenses. We've seen promising early signs around the direction of the commercial cycle and to capitalise on that and to accelerate the performance of the business, the focus is all about customer retention and improving the overall efficiency and effectiveness in line with our revised corporate strategy.

And finally, in the Australian direct insurance business we've seen good progress with some of the initiatives that it has in place to support growth. Which will be at least in line with the growth of the market whilst also focusing on its core capabilities including refining its underwriting and pricing to ensure that premiums reflect the changed risk conditions that we are now experiencing in



this country. As well as delivering new product initiatives and enhancements to meet changing customer needs, and also to recognise changed market dynamics.

Just one piece of evidence of our focus around our home markets can be seen through our new brand advertising campaign for NRMA Insurance, which we've also mirrored through our SGIO and SGIC brands. You can now unworry, unstress and uncash and several other uns to do with NRMA. Along with that campaign, we've also launched a new range of product offerings in our direct insurance business, including a market leading third party fire and theft motor product, variable excess options for our motor offerings and more bundled discount options for our loyal customers. All of those initiatives are designed to ensure that we main relevant in our chosen markets, and that we give our customers greater choice in finding the best product to suit their individual needs. I've got to say, there are more of those initiatives to come. It should be noted that we've also made similar investments in our brands in a number of the other markets in which we operate.

Now to the current year. The unprecedented turmoil in global financial markets has changed the economic conditions in which we operate since we first provided our guidance for the 2009 financial year. Despite that change in this environment, we remain on track and today we reiterate that guidance that we will deliver an insurance margin in excess of 10% and growth in our premium lines of between 0 and 2% during the 2009 financial year. Now that guidance, of course, is subject to the usual caveats that needs to be put in place for a business such as ours. It assumes that weather events remain within our normal provisioning, and that there are no material changes in credit spreads, investment markets or foreign exchange movements.

Our largest business, Australian direct and intermediated insurance, have continued to perform well for the first three months of this financial year. In New Zealand, I've got to say our



business has had a challenging start to the year, having already incurred about \$20 million in claims costs as a result of several severe storms which occurred across that country in July.

However, it's worth noting here that the group's overall natural perils claims allowance and claims remains well within our allowances.

As mentioned, the sale process for some of our UK businesses are underway, and we're in discussion with a number of interested parties, and I expect to be able to give you a further update by no later than February of next year.

I think it's understandable given the current market environment that our customers and our shareholders want to know that we're well positioned to be able to continue to pay claims, and to create value for our shareholders, despite challenging economic conditions. And I can certainly assure you that we have the fundamentals in place. Importantly, IAG maintains a conservative investment strategy to manage its investment portfolio, which currently has a total value of around \$11.1 billion. Our investment mix has remained stable since we reported our 2008 financial result, and we've maintained a high credit quality across the entire portfolio. Only 8% of our current portfolio, that is, the technical reserves backing our claims paying liabilities and our shareholders funds, is invested in growth assets with the remaining 92% invested in cash and fixed interest securities. 96% of our cash and fixed interest investments are held with high credit quality counterparties being rated AA or better.

In the second half of 2008 we took advantage of a blowout in credit spreads by increasing our exposure to Australia's major trading bank debt, which increased the banks and financial institutions component of our portfolio but also locked in higher running yields. As at the 30th of September, this component was 42%. These changes will improve our technical reserve returns, as we move through this financial year.



All of our credit assets are performing and all are meeting their interest and principal repayment obligations. And for those that are minded towards this, currently the sensitivity that we have to this portfolio is that for every 10 basis points change, that is for an interest rate movement of .1 of 1%, we make or lose \$11 million based on that portfolio.

The chairman mentioned that we also retain strong capital and risk management protocols. This is fundamental to the efficient operation of our business and its integral to all that we do. Robust capital requirements and risk management protocols have certainly positioned the Australian insurance industry very well, to ride through this current period of uncertainty and economic volatility. Our balance sheet and our regulatory capital positions remain strong.

As mentioned by the chairman, the group also continues to have \$550 million of pre-funded contingent capital available to us in the event of need. Our debt leverage has fallen because we've reduced the amount of debt that we have outstanding. We bought back all \$200 million of reset preference shares in June of this year, and in November of last year we reduced our outstanding subordinated debt by around \$220 million. Those repayments are reflected in our debt leverage dropping from 30% at the end of 2007, to 25% at the end of the 2008 financial year.

Also, I should say in relation to our overall funding profile, nearly all of our debt is fixed cost, both in terms of the rate that we pay for that debt and the margin over that rate. And the only debt that we had maturing during the 2009 financial year was \$40 million, which we repaid in early August of this year. We've also continued to enjoy a strong rating with S&P rating our key wholly owned insurance entities AA-, but importantly with a Stable Outlook, which I think is the strongest of the ratings for any of the Australian domestic insurers.

So ladies and gentleman, in conclusion I believe that IAG is a fundamentally and well positioned company with great franchises



and significant market positions, particularly in our home territories. We're very confident about our revised strategy and about the future for the group. I believe that revised strategy and the structure that we've put in place, will also have an impact because they are having it in the short term. But even more importantly, they will continue to drive our future success. Thank you.

James Strong:

Thank you very much Mike. Bearing in mind the time, I propose to get through some formalities before we come to 11am for the minute's silence.

There are six items of business before the company's annual general meeting this morning, and these are set out in the notice of meeting. Five of these items require ordinary resolutions to be voted upon. I should record there's notice of other business having been validly or duly given by shareholders pursuant to the Corporations Act.

Now some comments about the meeting procedures. Most people are quite familiar with these, but I need to repeat them. 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 to be used during the proceedings of this meeting, which is the normal proceeding. 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 to make comments on the management of the company, and to ask questions of the auditor's representative at today's meeting. Those questions to the auditor are limited to the matters specified in the Corporations Act.

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, because if any matter of substance is to be put before an AGM, proper notice of such a matter must be given to shareholders so that they may decide



whether to attend the meeting or how they might vote their shares in the light of the proposed business of the meeting.

I'll ask speakers to continue their questions and comments to matters that are relevant to the business of the meeting, and to the particular resolutions that are being discussed during the meeting. I would ask that speakers restrict themselves to no more than two questions or comments at any one appearance at the microphone. I draw shareholders attention to the fact that the laws of defamation apply to statements made at today's meeting. Please make sure that any statement you make is supported by facts, and that your statement is justified. I should also say that this is not really the time and place to air complaints about individual matters without commenting on their validity, such as insurance claims or the like. Anyone who has issues of this kind, please raise them with the Insurance Australia Group staff at the information desk that has been set up in the foyer specifically to assist with these sorts of matters.

There are two microphones stationed 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 on the business before the meeting. That is, persons who were issued with a keypad and data card or red non-voting card when registering for this AGM. Please show your key card or red non-voting card to the microphone attendant to establish that you are entitled to speak.

I remind speakers that I may give priority to a person who wishes to address the meeting for the first time over a person who has already spoken. A speaker wishing to speak more than once may line up for another turn. I 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.



Another of the formalities we have to observe here is that, before we attend to the business of the meeting, I must confirm to you that the minutes of our last AGM of shareholders, held on 13 November 2007, have been approved and signed by me as chairman of that meeting. And in accordance with the provisions of the *Corporations Act*, copies of the minutes are available for shareholders' inspection at the information desk in the foyer.

The notice convening this meeting has been sent to all shareholders. Shareholders have also had the opportunity to view the notice on the company's website. Unless there are any objections, I propose to proceed on the basis that notice is taken as having been read to the meeting. As there are no objections, the notice of meeting is taken to have been read.

I now move to the first item of business at this AGM, which does not require the use of the keypad technology. So we'll come to that later for demonstration.

The Insurance Australia Group [unclear] financial statements for the year ended 30 June 2008, the director's 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, and has been sent to those shareholders requesting a copy. It was also available on the company's website.

The first item of business is questions and comments on the financial statements, including questions to the auditor. The purpose of this agenda item 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 Mr Brian Greig, who is here at the front of the audience.

Mr Greig will be available to respond to questions relevant 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 auditor in relation to the conduct of the audit.

In accordance with the *Corporations Act*, shareholders were able to submit written questions to the auditor. Questions received prior to today's meeting concerned matters which did not relate to either the content of the audit report or the conduct of the audit of the financial statement. Responses have been provided to shareholders on these issues.

All questions to Mr Greig should in the first instance be addressed to me as chairman, and if appropriate I'll ask him to address the meeting. If anyone wishes to speak in relation to this item of business, please make your way towards the microphone queue. This is general comments on the performance of the company and the financial statements.

Question:

(Mark Hannah) Thank you Mr Chairman. I'm hoping to get through this before 11 o'clock. I noticed in the CEO's presentation that you touched on your new advertising and marketing campaign. That's what has prompted me to come here today. I've taken a photograph of an ad that ran for a few weeks on platform four at Town Hall Station. And with your indulgence, I'd just like to read it to the shareholders.

It's titled Un Your Life. With Un you can unworry, unravel, unshackle, unload, unbabble, or take off your underpants, because nobody wears da pants. With Un, there is no stress, just unstress. No hassle, just unhassle. No annoying bits, just unannoying bits. Most of all, with Un you can undo what you did. You can undrive through the car wash with the window down, or unbreak-dance in front of your teenage son. And his mates. Or unflood the downstairs laundry that now doubles as the pool room. Un makes life relaxing and unreal. So I say to those inquisitive enough to enquire, Un your life. Be happy and live for now. Don't worry, unworry. And go you good fung. Unworry NRMA insurance.



My question to you Mr Chairman is are you getting any positive results out of these ads?

[Laughter, applause]

I've got to say, if I could just make one more comment, when I read that and showed it to some people at work I was prompted to take a photograph of it. The general reaction was that you'd gone barking mad.

[Laughter]

This leads onto the other point, and I'm finding this with your annual reports and your reviews. Last year we got things like the story so far, and all this sort of stuff. And wasn't it a story. And this year we get the facts in black and white. I think, as an organisation, get back to something a bit more conservative. That's my view, but I'd like to hear your comments on what the feedback is on this advertising campaign, and whether you're writing more policies to the right people that you want to write policy to. Thank you Mr Chairman.

[Applause]

James Strong: Thanks, Mr Hannah. I get the general impression that it didn't quite get you.

[Laughter]

That's a good summary of the – well in the wrong way. We all know that advertising is an area that there will be a great range of views. I'm not sure that you or I, Mr Hannah, are actually the target of this. But I'll ask our CEO to cover this, and to explain some of the background to it.

Michael Wilkins: Thank you chairman. It has actually led to a significant uplift in terms of opportunity calls that are coming into our call centres. I understand that the advertising is not necessarily everybody's cup of tea, but as James just said, it's about actually trying to differentiate yourself in the market. And I think that we've certainly succeeded with that.



As a result of a combination of that, plus some of the new product initiatives that we've been able to introduce to support that, we are selling more new policies. Just to give you an example of that, we've sold in excess of 1000 policies a week, in addition to what we had anticipated for the last six weeks. Partially coming from that advertising campaign, but also coming from the revised product set that we have.

So as I said, I understand that advertising is not everybody's cup of tea all the time, but it is about attracting people to our opportunity set and it has certainly achieved that.

James Strong: Welcome, Mr Tilburn.

Question: (Jack Tilburn) Yes, and welcome to you Mr James Strong. Although I don't think you're very strong for the IAG company any longer. I'll have further words about your re-election. Ladies and gentlemen...

James Strong: I'm really surprised with that remark. Anyway, continue.

Question: (Jack Tilburn) It's five to 11. Jack hammering won't get through in five minutes. You'll need half a minute or so, James, to get us all ready for the great Remembrance Day, so I know I will be interrupted. It's quite okay.

Ladies and gentlemen, the only good words that I've got today for the IAG company – and I'm in the same position as that man over there. Very cynical and sceptical I thought he was, and so am I. The only good thing was I'm holding a document which says I own about 42 000 shares in IAG. I'd like to own more but I don't dare buy because they might go down to \$2.50. And they paid us nine cents. I think that's the only good news I've got out of IAG in the last financial year.

And I want to thank them for that nine cents. It could have been six, it could have been three, it could have been nothing. We did go down seven cents on the year.



I'm very sceptical and cynical of what IAG is trying to do. And I made a list of words – after all, I did write a book of 87 000 words on do it yourself corporate governance. I am very disappointed, Mr Strong, very depressed, discontented, dissatisfied, disillusioned, disenchanting. I'm sickened, I think it's pathetic, I think it's pitiful, and I think it's all appalling.

Now I tried to get through the annual report, and every damn page I turned over I became more sick and more depressed. We made a net loss of a mere \$261 million. Right down the gurgler, right down the toilet. That's one page one.

I was going to ask a question. Did you say one question per speaker, or two?

James Strong:

One or two at a time.

Question:

(Jack Tilburn) Alright. A small one, and then a big one. The small one from page one is, I never do understand that you make attributable to minority interests, you pay out \$35 million. I'd like you to tell us all and educate us all, why in the hell do we get rid of \$35 million to minority interests. And who the hell are they?

Now on page seven, just a commentary, they say all about risk management. It's required for operation of the IAG. You add risk every day. You add risk whether your motor vehicle's going to collide, or you're going to go under a double decker bus, or the train will blow up. We all have risk. But these girls and boys don't know what they're doing with risk management.

We have losses in Hastings in England, Advantage in England, Equity Insurance in England. I think we've wasted about \$1 billion over in the old country on these damn ventures and adventures, which haven't worked out.

And then on page three in the annual report, they tell us all about the role of the board. [Unclear] the group's risk appetite. Risk appetite? I'm sick every day when I think of IAG going down the gurgler. Monitoring key risk areas. They're not doing that.

Fostering a culture of rewarding transparency, integrity,



meritocracy, teamwork and social responsibility. Well it's all good bulls in the annual report.

The small question was on minorities. I don't understand what you're doing with \$35 million or why you're doing it.

Balance sheet. Every company gets up, and every chairman, and managing director, to tell us all about the wonderful balance sheet. It's the greatest thing in the world, better than sliced bread. Well I've been doing a bit of enquiry on balance sheets, and I think a lot of it's all bulldust.

Are you ready there James? I'll sit down because it's 11 o'clock.

James Strong:

It's 10:59. This is a very important day and everybody understands its significance. So I wonder if you'd all join me in standing for one minute's silence.

[One minute silence]

Thank you very much.

Question:

(Jack Tilburn) I was finishing up, Mr James Strong, on the board of directors. Or sometimes I call them the board of dictators.

[Laughter]

On page 33 in the balance sheet, annual report, liabilities. Now this is the very big question on the balance sheet. In the liabilities you've got the long term interest-bearing liabilities. In the parent company, \$860 million. It came down from \$1.1 billion. I'd like to know how it came down, where you got the money from.

On the consolidated column you've got \$1 401 000. Well I reckon that's \$1.4 billion of long term liabilities consolidated that has come down from \$2 billion. But gee whiz, carrying \$1.4 billion, isn't that a hell of a lot of money to carry around and to pay interest on? And is that being very comfortable for the company?

How is it possible to say that the balance sheet is strong, it's good, it's overpowering? I think it's a very bad situation for us. And if I'm wrong, you tell me. You've got printed on page 33 to repeat consolidated \$1.4 billion in debts. And the parent \$860 million. Tell



us whether the parent \$860 million is involved in the consolidated, or is it separate? No doubt it is included in the consolidated.

They were my two questions to start with. Thank you, Mr Chairman. One of the minority interests, we've got rid of \$35 million. And how in the hell are we going to get rid of these long term liabilities? Thank you.

[Applause]

James Strong: Thanks. I'll ask our CEO to comment first of all on the minority interests.

Michael Wilkins: Mr Tilburn, the minority interests represents the 30 per cent owned in Insurance Manufacturers of Australia by the RACV, which is the joint venture product manufacturer and claims management company that we have with RACV. That entity has been in existence since pre-demutualisation. And that minority interest has been recorded each year for that. That \$35 million is their share of the operating profits of that company for the 2008 financial year.

James Strong: And in fact, Jack, I know these things are hard to trace, but on page 82 of the annual report there's a note there with more detail about what the minority interests are.

Your second question, after a few other remarks on the way through, was about the balance sheet. And I'll ask Mike to comment on that. Again, obviously Jack it's the net position that matters. But I'll ask Mike to comment on that.

Michael Wilkins: Thanks James. \$1.4 billion does represent that 25 per cent gearing that I was speaking about, which is actually a reduction from 30 per cent at 30 June 2007. During my presentation I did indicate that we had paid down over \$400 million worth of debt during the 2008 financial year. Which we felt was prudent to do in the current circumstances.

For an organisation of IAG's size, I think \$1.4 billion is a comfortable level of gearing. Our results, including those forecasts



that we have put to the market, make full allowance for the costs on that borrowing.

During my presentation I also indicated that our borrowings were in the main fixed, so that our interest rates and the margins over standard rates have been fixed. And I think generally speaking our borrowings are actually quite favourable, relative to current market circumstances.

James Strong:

Just to follow on what Mike said, Jack, on page 33 you'll see the line underneath that is the net assets. So even though, as in any company, you have debts, it's the net position which is the one that indicates the strength of the balance sheet. So I hope that's helpful in clarifying that.

Question:

(Joe Nagy) Thank you very much Mr Chairman, board, and ladies and gentlemen. This is a disastrous financial performance by this board. First of all, I point out the first incorrect statement right on the cover of the annual report. It says the figures in black and white. When I read this, when you read it, all I see is red – red ink. Profit has dropped 136 per cent, from \$629 million, to a \$226 million loss.

Your offshore expansion has been disastrous and it is misleading for the managing to run through that, because if you look at page 50 you will see what you get if you look at the return on assets. You are only making reasonable profits in Australia. So have a good look at what you are doing overseas.

It is good to see though that even though you made the loss that you have managed to declare a dividend of \$537 million. The only problem with that is that your net worth has declined by \$480 million. Now, if I was a banker which I was in my other life, I would have this company watch listed or at least classified. You deserve close watching because the board is not doing its job in spite of the fact that you voted yourselves an increase, in spite of the fact that you voted the managing director an increase, then you said goodbye to him late last year.



Now, you made some comments about the corrective action you are taking. It is interesting that you are going to cut staff but you are not going to look at yourselves and cut yourselves.

(Applause)

Now one comment, and it is not personal, I don't mean it, but Mr. Chairman, you are on about four or five boards there. Now, in the old days that was a sign of strength and competence. In fact, people were on boards of 14 or 15 companies, great, but in today's world, in today's highly volatile risky world, I think it is just hard enough to manage one company successfully, not four or five. So I am not making any criticism of you, but I think you should look to your own position and hopefully the rest of you will have a good look at your position and do the honourable thing and resign and make this truly a day of remembrance. Thank you.

(Applause)

James Strong:

Mr. Nagy, thank you very much for your comments. I think the question of the disappointing financial result was covered by both myself and by the CEO and the explanation for why there was a loss is very clear in the annual report. We actually made a profit on our insurance operations but, as you know, we decided to take write-offs on those parts of the business in the UK which were not performing, which was not in accordance with the original expectation of the market and ourselves when we invested there. There may be more comments about that part of the business at a later stage. But I can certainly assure you that the board spent a long time looking at opportunities for growth and it was seen and advice was received externally that this was a good opportunity.

Part of the business that we are acquired in the UK, Red Star Equity, is doing quite well and I think in the last 28 years it has made a profit, sorry, the last 37 years has made a profit every year and we expect it to do so again this year. The reason for the difference between that part of the business we bought in the UK is that it is very specialized insurance. The part of the market that



is still in great distress in the UK is what you would call the general insurance, both in cars and housing. So that – we had to make a decision as to whether we persevered with that part of the business or whether we took a write-off, which obviously goes against our financial results in the year just past.

We have indicated that we agreed that that is a very disappointing performance, it is not acceptable and we have indicated what we are doing about it to improve the company's performance.

In terms of what bankers – you made some comments about what bankers or others might say about our company, obviously our company is monitored very closely by the ratings authorities and also by banks in terms of people we deal with. As we mentioned, IAG still has the highest rating on an insurance company in Australia. So I can only point you to what people whose sole reason for existence think of the company in terms of its net standing.

I agree that cutting staff is always an absolute last resort but it was clear that we were carrying costs which were impacting on our results and we had actually had to do something in order to improve our performance this year and for every year thereafter and I think the CEO made his comments about how that was done in a way which would have very little or no impact on customer service.

Your comments about the number of boards involved, I am also the chairman of Woolworth and I am on the board of Qantas. I do not miss any meetings or not participate in any part of those companies because I am full-time doing that, and I believe that in all of the areas I have been employed I have given adequate time to it.

We have tried to paint you the general picture that this is a very bad cycle for the insurance industry, and as you can see if you look at Suncorp or anyone else operating in the Australia and New Zealand environment it has been a very bad. And we accept that



in addition to that there were two other things, and I highlighted this in my address, that impacted on us adversely. One was taking the write-off on part of the business in the UK and the other was the attempted takeover by QBE, which crystallized a lot of views in different ways by different people.

In terms of the company going forward, I don't think it is a very positive or realistic thing to say everybody resign. In fact, the whole idea is if things are not as they are you take responsibility for it and you do something about it to put the company back on a firm path so that the shareholders' value will be restored and will be maintained and that is what the board has attempted to do.

We believe, as outlined by the CEO, that we are now established on a different footing and that the outlook is reasonably positive. Mass resignations of people who are entrusted with the oversight of the company is not a solution.

Question: [Inaudible]

James Strong: There was an increase in directors' fees last year and the book fees, that was an annual review conducted in the normal way of what is the movement in fees for boards of comparable size and responsibility. The board has already looked this year and decided to freeze the directors' fees this year.

(Applause)

Question: (Norm McPhee, Shareholder) Mr. Chairman, before I get to my point I would like to comment on Michael Wilkins' growth forecast of 0 to 2%. The inflation rate of around 5% what he is really saying is we are looking to a decrease in real terms of our premium income. That wasn't what I came to talk about really.

In our balance sheet the outstanding claims are 7.8 billion and the unearned premiums carried forward are 4 billion, giving a total of around 12 billion. A little bit of a nudge or change one way or another makes a difference to the profit of around 120 million.



On item J on page 62, the first of the effective changes in assumptions. And it says, "Under a weighted average terms of settlement a decrease in the average term to settlement would reflect claims being paid sooner than anticipated and so increase the claims expense." But put the other way around it means that the increase which has taken place from 104 to 110 has the effect of decreasing a claims expense in the year. So I wonder what would be the effect in dollar terms on the 2008 figures if the average terms had not been altered. An increase from 104 to 110 seems to be approximately 5.76%. 5.76% of the outstanding claims of 7.827 million, amounts to 450 million. Does this mean that the comparative figures for 2008 and 2007 is not really a true comparison? And what is the effect in dollar terms in the changes in the calculation of unearned premiums carried forward? I would like the auditor to actually comment on those figures. Thank you.

Facilitator:

I will ask Mike to make a first comment.

Michael Wilkins:

The comment on our growth of 0 to 2% makes the assumption that we will be out of the businesses that we are seeking to divest in the United Kingdom as well as ceasing to underwrite the business, Alba, which is the Asian reinsurance syndicate that we have. On that basis we will clearly drop off several hundred million dollars worth of premium which does actually depress the apparent growth that we have. On an underlying basis we believe it will grow between 3% and 5% during the course of this year which does recognize discipline in some markets because where we are unable to get an adequate price for the risk that we are being asked to take we will actually refuse to take that risk and we are quite prepared to shrink business in some areas should the need arise.

James Strong:

On the other question, or the other area that you are commenting on, J, the weighted average terms of settlement, I think it is important to see that this is an explanation of the possible sensitivities to if you change the way in which the actuarial calculations were done in the company it does not say that we



have done that. It is just pointing out that those are things which can affect the actuarial assumptions. It is not saying that we have changed the average weighted terms of settlement. And the auditor acknowledges.

So I think this is a case where there is a heavy requirement to indicate everything that could influence it, but in a way it is almost confusing because as in your case you have assumed that that is something that has been occurring, but it is just pointing out what the sensitivity is when doing actuarial calculations if you change some of the methodology. It has not actually occurred.

Question: (Norm McPhee, Shareholder). With due respect the comparative figures of the claim show that the average term has been changed from 104 to 110, those are the figures in black and white.

Nicholas Hawkins: Good morning everybody, I am the chief financial officer. My understanding is the reason that the sensitivities changed there from 104 to 110 is just a slight change in the mix of our business, so that every year there is a slight change in the types of products that we have and the weightings that make up the overall outstanding claims, therefore that sensitivity changes in little bit. But I will go back to what James and Michael also said, is that that is the sensitivity, it is not what is actually – what has actually gone through our numbers and therefore we haven't made any dramatic changes in our assumptions and therefore changing our profit.

Question: (Norm McPhee, Shareholder) [Inaudible] three.

James Strong: I have just gone to the next question, is this a continuation of your previous question?

Question: (Norm McPhee, Shareholder). Well, I am questioning the answer.

James Strong: Okay, go ahead.

Question: (Norm McPhee, Shareholder) On page 63 the 2007 figures showed that the weighted average terms of settlement is 104. And in 2008 it says that weighted average terms of settlement 110, now if that is not a change I don't know what a change is.



- James Strong: Yes, but what Nick was just trying to explain to you, the CFO, is that it is a consequential change from the actual business that we wrote in that period. It is not as if we set out to make a major change in one of the actuarial assumptions. It is a slight variation which has occurred as a result of the actual mix of business that we wrote in that period and the settlement.
- Question: (Norm McPhee, Shareholder) Well, I'm only reading what it says in the report.
- James Strong: Yes, you are correct in that there is a slight difference but what I was trying to say, the point you are making is absolutely valid, right, but it is a result of the mix of business that we wrote. It is not what it seemed to me you were expressing concern about is did we set out to change the weighted average terms of settlement as some way of changing the way in which we operated and the answer to that is no. Because I understand the implication was that this is some way of manipulating the performance and the answer to that is no. It is just that there is a slight variation because of the difference of the mix of business that we wrote and the way in which the settlements occurred during the year. It is a difference of \$6 million in premiums of eight point something billion.
- Question: (Norm McPhee, Shareholder) But even so, I don't understand why they bothered to put this comment in the report.
- James Strong: Because we are required to by the practices which govern these reports. And you know, I think it is ironic that the point that you are making is valid that some of these things, rather than seeking to clarify, actually make it more complex but that is what the requirement is to set out in the annual report. But it certainly doesn't indicate any deliberate change in policy in order to get a different financial results and it is a very fractional amount of money. Can we go back to number one?
- Question: (Joel Edwards, Shareholder). Mr. Chairman, I would like to pick up two points that were made I think rather ably by Mr. Nagy,



they are relevant here as much as for some upcoming resolutions and items about election of directors and the remuneration report.

One thing I'm particularly concerned about, because I go to a number of company meetings and read a lot of annual reports and it is almost a rule of law or physics that when you have a board, particularly a chairman, that is overloaded in directorships, whether corporate or noncorporate or even charitable, you are in trouble. Either the company is already in trouble and has not enough time because directors, CEOs and so on are over committed elsewhere with too many corporate and noncorporate commitments or it can actually lead to that thing. So one tends to feed the other.

As I see it, and we should probably, when we do a bit of a check list of the board in toto, a chairmanship, particularly of a company like this or Woolworth, anything in the top ASX200, a chairmanship typically should be worth about three ordinary directorships and a rough measure of that is that this, as well as other companies, usually value their chairman's pay at about three times that of an ordinary director. That is a fair and reasonable assumption. On that basis, looking through page 22 of the report, the review I should say and the corresponding page in the annual report, you are chairman of this company and Woolworth, well, now that would be about six ordinary directorships if we take a chairmanship being worth three, plus Rip Curl, which admittedly is a private company, but I assume that that has a certain claim on your time and attentions however many days per the year I don't know, but it would require some claim on your time as it is a well-known brand.

You also have the noncorporate – Qantas of course, not a small company, not without its own particular problems with or without the current financial meltdown.

You have the commitment of the Australian Grand Prix Corporation and the Australian Council for the Arts. Now, I add that up to be about nine or ten corporate and noncorporate commitments.



It does not stop there. Mr. Wilkins is our CEO. Now I would have thought that particularly in this climate for any CEO of any company in the ASX200, that would be a pretty full time job. God knows we pay him a full-time salary, a generous salary, and that is not the issue, but he is paid a full-time salary for a full-time job, and yet he has his attentions wandering over to Maple Brown Abbott. If I was in Maple Brown Abbott I might be asking the same question in reverse. Can he split himself in two ways and do so profitably to both entities, in particular IAG? I would think in the current climate of the international financial crisis we would want to a full-time CEO or full-time pay and full-time attention. It doesn't stop there.

Mr. Fletcher, if you look through his list all of the stable of directorships he is a director of IAG, obviously, he is a non-executive director of the Reserve Bank of New Zealand, I would imagine a fairly heavy commitment, not an ordinary run-of-the-mill directorship, Fletcher Building Ltd, Rubicon Ltd, Vector Ltd, as well as being the Chancellor of the University of Auckland, however much that may be a ceremonial or noncorporate role is still time that is taken away from what could be a core of manageable, reasonable and indeed quite high commitments in some fairly top companies at the ASX.

It doesn't stop there. Mr Neil Hamilton I understand has resigned, but he appears in the annual report and the annual review. Notwithstanding similar comments by myself and others last year about overcommitted directors, immediately before last year's annual general meeting, he took on an extra directorship of Northern Iron.

In February of this year while still a director of IAG, he took on a pretty heavy directorship of Metcash. He at the same time according to page 22 of the annual review was a chairman of Iris Market Technology, Mount Gibson Iron, etc. etc. Program Maintenance Services Ltd as well. A heavy load of directorships.



It doesn't stop there. Mr Brian Schwarz, also a CEO of Investec Bank. Again the same comments as I made about Mr Wilkins. A fulltime CEO on fulltime pay, and yet he still has time to divert his attention onto other matters.

Now I would have thought a CEO is a CEO is a CEO, and not a non-executive director of other company or companies. And also Mr Philip Twyman, this will become relevant later when he comes up for election, very heavily committed director of Swiss Re, Perpetual Ltd, ANZ Lenders Insurance Ltd, etc.

The fundamental question is, in particular with this international financial meltdown, you need a bit of wriggle-room. In good years you can put your feet up and relax. But it's in the tough years that we want a board of any of our major companies to have that little element of tolerance in their financial and commercial and non-commercial commitments to be able to apply themselves fulltime to pressing problems, not only generally around the world, but specifically to this company which have not just been going on in the last 12 months. They've been going on since 2005.

Because if you look at the five year summary which is page 21 of the review, corresponding page one of the annual report, a number of the key metrics in this company are very worrying. Not just in the context of the last year, not just in the context of the failed QBE bid and all the circumstances surrounding that, some of the key metrics since the year 2005. Underwriting profit, \$430 million, down to \$16 million. Insurance profit, \$946 down to \$448. Net profit, well \$928 to \$226 loss. That's well over a billion dollars turnaround. Dividends, unsustainable at current and recent levels of the last few years. Basic earnings per share, one of the key metrics of any company. From in 2005, 49.3 cents a share down to -14.29 cents a share. Net tangible assets, \$1.18 a share in 2005, 93 cents at current date.

How can you justify the rise in your pay last year? Forty per cent...

[Applause]



A 40 per cent rise was voted on last year, from \$2 to \$2.75 million. We are one director down on last year. We have eight chairman and directors now. Last year it was nine, chairman plus directors.

So there was your wriggle room, you didn't need the extra 0.75 that we were persuaded by the chairman, that we needed so urgently to seek new directors for new challenges for the matters affecting the company, of the usual litany of reasons.

Your salary has gone up from \$612,000 to \$712,000 in total. A rise of 17 per cent to June 30 of this year. I've already given some of the negative and declining fortunes of the company, and yet you positively get a rise of 17 per cent. Ordinary directors go from roughly \$200,000 to \$220,000, a rise of 10 per cent.

I just don't see how you can even justify a freeze at these levels. It would be a massive step forward if you actually turned the clock back in line with the performance of the company, or the lack of performance, and actually had a reduction and a reversal back to 2006/07 levels at the very least. Because I just don't see...

[Applause]

I simply can't see that with all the twin problems of overloaded directors and an increase in fees in this company and possibly even the other companies in which you various ladies and gentlemen are directing, that that is not just anything but naked, outright greed with a corresponding and worrying lack of performance. It would be very easy for you as a strong chairman, no pun intended, a strong chairman to put a limit at least, that could be done tomorrow and Mr Hamilton, the now ex-director has quit IAG to concentrate on his other 4,398 directorships. Why could you not as a strong chairman insist on a reduction, at least pro tempore while we're in the grip of this financial meltdown worldwide, and in the context of a vastly falling number of important indicators since 2005 in this company, simply put a limit on any incoming directors that we have to vote on shortly. I can



tell you for at least three of those four directors, I will be voting against them, largely on the basis of gross over commitment.

[Applause]

James Strong:

Okay, thanks Mr Evans. I'd like to try and respond to those in order, but not necessarily the way in which you raised them though.

You made a lot of specific comment about what is clearly revealed in the annual report about all of the activities and involvement of all the directors, and that's why it's put in there. So it is quite public.

Your comments about the financial performance, as I've indicated before and I'll say it again, it has been a very bad cycle for the insurance industry in Australia, and you only have to look at Suncorp and others who are involved in the same market to see why. We did face up to the fact that we had two other items, one uninvited which was the QBE attempt to do a takeover. I don't know why you keep calling it the failed QBE attempt, because they just decided to walk away, but no doubt we'll discuss that more later.

Then we had the problems in the UK which we've clearly indicated what we've done about it. We accept that it was a strategy that did not work and tried to explain why. But this has been a very difficult period for the whole insurance industry in Australia. It's shown very clearly in other people's results.

Now underlying what you're saying about all of the directors and myself included is that we have not been attending to this company's interests. If you have a look at page 12 of the annual report, you'll see that during the year there were 24 meetings of the board of directors. There were 24 meetings because that was the number that was required both because of the uninvited attention of QBE and also working out what was the best thing to do with the non-performance of some of our assets in the UK. The reason why – and it's not just this company, if you go to any



major company's meeting, there is quite a list of activities that directors are involved in, and the reason is that they are successful people and people who are in demand and obviously in each case it's up to the individual to assess their ability. When people are assessed we have a procedure for when somebody's brought forward for nomination as a director. We go through a whole series of questions and responded to by them, to assure us that they can handle the workload.

Last year's been a really hectic year and there has been nobody who hasn't been proper in their attendance, who hasn't made a contribution to the meetings, and who hasn't been fully active in every way that we've asked them to be.

So I think it's important to understand that that is a subject that we are aware of. It's a subject that we have to keep a watch on. It means that some people work fulltime, even though they're non-executive, and that's the case with a number of people in this area as well.

In terms of the individuals, I might ask Mike if he would like to make a comment about his situation. The other directors who are up for re-election can comment at the time when they're up for re-election.

Would you like to make a comment Mike?

Michael Wilkins:

Thanks James. I believe that my commitment to Maple Brown Abbott does not in any way impair my capacity nor my commitment to IAG as a fulltime chief executive. Maple Brown Abbott is involved in an area of business in which I had some expertise, and I'd like to believe that I am able to bring some of that expertise to the benefit of that organisation. However as I said earlier, I don't believe that it in anyway impairs my capacity to undertake the role that I've been charged to do by this board. I further believe that in terms of the commitment that not just I'm giving as chief executive, but in fact all of our people are now giving in terms of trying to turn the performance of the company



around and guide it through what is unprecedented difficult economic times.

I believe that the commitment that we're seeing from all of those people is exceptional, and I'd like to publicly record that before all of the shareholders, because they are working particularly hard in an attempt to turn the organisation around.

James Strong:

I know also Mr Evans you made reference to this question about CEOs having any outside involvement and you can lay London to a brick on the tax going to have a go about that later. Also I think the ASA is going to have a go at that later as well. So I'm not attempting to restrict their comments or whatever, but I'm sure that there's going to be a divergence of views about this. There always has been, and there always will be.

I can only tell you from my own experience, when I was a CEO, when I was running Qantas, the board and the chairman actually encouraged me to take one outside board appointment because they thought it was very good in terms of understanding a company from another perspective, and that it would be an experience that would benefit me as CEO.

So throughout my period as CEO of Qantas, I was involved on an outside public board, and that was my experience as well. But I realise there are different views about that aspect.

I just want to finish replying to you, to say that I can only assure you that there has been no evidence of any sort at any stage that any member of our board of directors or our management is not fully committed to IAG's affairs as and when required. I think that's something that – it's a fair point to raise and it's something that we will continue to make sure is the case within the company.

Can we go to number two?

Question:

(Mr Brian Gates, Shareholder) Actually Mr Chairman it will be two questions. The first question was the QBE takeover, if it had gone through, who would have been the senior partner and what would have happened to the IAG name?



Secondly, I asked a question last year about claims for concert cleansers at the climate change. I was assured that the plans were in progress. Yet this year, you're claiming the problems are because of unforeseen circumstances. What has changed between last year and next year? Thank you.

James Strong:

Thanks Mr Gates. On the first one, I can't really answer that, what would have happened to the IAG brand because we never got into any discussions of that nature, unfortunately.

I want to be careful what I say about the QBE situation because life goes on. I would just like to make a comment though that it's difficult for people observing from the outside to understand the true nature of what was going on.

I've gone to great pains in the annual report and in the statement we issued at the time when we said that they weren't making a full and fair offer to us, to say that we think there's merit in this idea. I can actually tell you that there were talks about it years ago, because of the complementarity of the two businesses. They're in overseas markets; they're in a different sort of market to what we're in. We're very strong here in the direct market and in general insurance, which they're not strong in. There are lots of things about moving risk and spreading your risk around the world in different businesses which would be very beneficial.

But unfortunately the whole approach to QBE was not one which was meant to be as they styled it, and they kept putting on all their press releases, friendly merger approach. Well I tell you what; I'd hate to have an unfriendly merger approach. It was like being asked to go out on a picnic and when you got there, they had a shotgun in the picnic basket.

I don't want to go right through this, but just to give you some idea, we were asked to have an absolutely off the record discussion about this and with a view to reaching agreement. We readily agreed to have a chat and at that meeting they said this friendly merger consisted that they would take over total



governance through their board of the merged group. That they would take over total management of the merged group, and that an announcement should be made the following week, and the deal finished within two weeks. When we said so what price is being offered, it was one cent above our share price.

Now it's generally considered that about 30 per cent is the premium that you pay somebody for totally taking over their business, and we didn't think that one cent amounted to that.

When we said that we didn't think that was a reasonable approach, they suddenly decided that this entirely confidential meeting should be released to the stock exchange.

So I don't want to go on about this. QBE is a very good company, they have very successful management, they have a reputation for buying things cheaply. And they're pretty tough in the way they go about it. Clearly their intent was to get shareholders, particularly institutional shareholders to put pressure on us to sell. I'm afraid that your board spent a lot of time evaluating what they were offering, because they changed their offer once or twice. But it was never a complete offer. There was never a discussion about how the companies would be put together. There was never a discussion about where the value would be. We thought that that was something which you'd expect in terms of an attempt to merge two companies, so that we could ensure what the fair value would be for the shareholders of IAG.

Remember that what they required, why they wouldn't put an offer to the public, was that they required for that offer to go forward, that every board director of this company unanimously agree to recommend the deal to our shareholders. The reason they wanted that done is because there are so many independent shareholders in this company because of its mutual heritage.

Obviously that meant that we needed to know a lot about their shares, which you would be getting as value for selling the IAG



shares. I'm afraid that we were never in a position to do so, and they withdrew the offer.

I don't want to go on and on about it, so coming back to your question, I don't know what would have happened to the IAG brand because we didn't get around to that in any detail whatsoever.

I would imagine they would have kept them because they're very valuable brands. That's what they wanted to buy, and that's why they wanted to buy.

I hope that's helpful to you in terms of giving a bit better understanding of the background, and I'll now ask Mike to comment on the climate change issue that you raised.

Michael Wilkins:

Thank you James. Certainly we've recognised for the past several years that changes in climate is leading to significant and far more severe weather events in particular. During the last few years we have been moving our pricing in an attempt to get on top of that.

To give you an example around that, not so much the pricing but just to talk about the allowances that we made, in 2007 we had an expectation in terms of how we priced our products, that we would have about \$200 million worth of severe weather events. During 2008 we increased that expectation or that allowance that went into our pricing to the expectation that we would have \$320 million worth of severe weather events. So by anybody's standards, a fairly significant recognition of this change.

Unfortunately the outcome for us in 2008 was in excess of \$500 million worth of severe weather events. That included floods in the UK, New Zealand and Australia which is highly unusual, all of those to occur at the same time. The hail storm that hit Western Sydney in December of 2007. Severe windstorms in Melbourne, as well as other floods, lesser floods in Lismore and Mackay and there are a number of other areas.

In terms of 2008, we believed that it was an aberration year because as I said, we had improved our expectations quite



considerably. In 2009 our expectation is that we will have about \$320 million worth of perilous events again at this year, because we think that is closer to what our long term averages tell us is going to happen. So hopefully that answers the question that we are looking to deal with it.

James Strong:

Thanks very much.

Question:

(Mr John Fielding, Shareholder) Mr Chairman, I'd like to talk about the performance of the company in relation to its shareholders. I believe because of the demutualisation process that occurred, very many of the shareholders in this room came because they were either policy holders or they were involved in NRMA.

I believe that the shareholders are one of the big assets that this company has. I also believe that there isn't enough recognition and enough understanding by the board of director and the management, certainly not in the past.

I last spoke at this meeting in 2005 and at that time there were 70,000 shareholders. That's seven per cent of our total shareholding had gone missing. In other words, we weren't sending them dividend cheques, we weren't sending them annual reports.

I requested that some effort be made to find those people. So I'm coming back and I'm asking you, what is the position today? How many missing shareholders do we have and I also feel that not enough is being done.

One of my suggestions has been to compare the records of the company in relation to policies with the shareholding record to try and find these people.

What I understood in 2005 was that people would come and ring up and give the change in the information about their policy, and nothing really was done to help them and recognise that those same people were probably shareholders.



Now I wrote a letter in July of this year to you, the chairman and I actually sought to receive a written response. I received no response, and it wasn't until I sent off my proxy for this annual meeting and sent a copy of the letter that I got a response from the investor relations man.

What did he say about this issue? I understand that comparing shareholders addresses details to the group's policy holder insurance database may constitute a breach of the privacy act.

Well Mr Chairman, I just don't believe that and I would be very interested to know what legal advice you have got, in writing, from a qualified person.

Now I'll talk about this problem of not recognising, or this privacy act. In 2006 I had a problem. I'm a chartered accountant and I received a bill for a firm that I did work for. I sent away the cheque, it was signed by me, the only person who is a signatory. The cheque apparently went missing.

I rang the New Zealand office involved and the people refused to speak to me because they said I wasn't a director of the company.

Now that's just unacceptable and of course it was the privacy act. The New Zealand privacy act, a very similar thing. I think that was totally incorrect. I had to ring a bank in New Zealand and found that the cheque hadn't been presented. I had to stop payment on the cheque, I issued another cheque and I wrote a letter. I said you're threatening that this policy no longer exists, could you confirm that the policy will continue. You've got the money now, and I received no reply to that letter.

In the two years that followed I have had similar sorts of problems in that the bills have arrived late and I have tried to get a change to the records. There hasn't been a satisfactory – certainly in 2007 there wasn't a satisfactory response. I got a much better reaction in 2008, and I hope that for the future, there will be no repeat of the problem. Because the difficulty lay in the office of one of your subsidiary companies.



So that's the problem. The privacy act, your problem with shareholders, and not recognising your asset. Thank you.

James Strong:

Thanks Mr Fielding. The early part of your discussion I quite have sympathy for and that is that there are a lot of people here who are NRMA members and who as a result have shares in the company. I think that indeed is one of the distinguishing characteristics of this company. I certainly don't want anyone to think anything other than the greatest respect is attached to people who've been long-term members of NRMA, and they thereby became shareholders in the company. I fully agree with your view about that.

Now the problem you're referring to relates to the privacy act. I don't want to spend too much time on it here because it is a specialised issue, but I'll ask the company secretary, Glenn Revell who will now make a comment about the issues you've raised.

Glenn Revell:

Good morning Mr Fielding. First of all I would like to apologise for the first letter that you did send to us. For some reason it wasn't received by the chairman or myself. Sometimes letters do go astray within the organisation, so on behalf of IAG, I sincerely apologise for that.

Mr Fielding in terms of what we call return mail shareholders, certainly your comments and suggestions that you made in 2005, some of those things we were already actually doing. Certainly at that time it was around about seven per cent of our total number of shareholders.

It is probably the same today in terms of percentage terms because our overall number of shareholders has reduce. Back in 2005 it would have been in the high 900,000. Today it's around 888,000 shareholders. However the actual number of lost holders has reduced considerably, and that is because of the significant time and effort we've put into trying to trace these shareholders. So we can effectively encourage them to be shareholders of the company, and also ensure that we can pay them their dividends.



It is a huge challenge for us and there is a significant cost involved. We have to weigh that cost up against focussing on those shareholders who wish to maintain contact with us.

The reason why they remain, certainly return mails, because simply they've changed address and they haven't notified the share registry. It's an easy thing to overlook, so I would encourage all shareholders here today that if you do change address, make sure that you notify your share registering in relation to your personal holdings of shares.

- James Strong: If I could just mention also that Mr Matt Garvin from Computershare who's the New South Wales State Manager, he's here today and if anyone wants to raise issues with him, I'm sure you can talk to him after the meeting.
- Question: (Mr Jack Tilburn, Shareholder) Mr Chairman, I wish to make a comment and a question I think...
- James Strong: Sorry Jack, just hang on a moment. Do you mind? The comment on the privacy act?
- Glenn Revell: I'm not an expert on the privacy act Mr Fielding. I certainly could invite Mr Michael Cripps who's our group general counsel to make a brief comment on that. Would you mind Michael, that would be good.
- Michael Cripps: Michael Cripps, General Counsel. The privacy considerations as you'll be aware are absolutely paramount both as a matter of law and ethically. For our company and for others.
- So even in the case of in the example you raised sir, lost shareholders, it simply isn't possible to breach privacy requirements or considerations to assist in that process. I'm afraid the answer is as black and white as that when it comes to personal information and customer detail. Thank you.
- Question: (Mr John Fielding, Shareholder) I have a point of order on that.
- James Strong: It's not a point of order but just...



- Question: (Mr John Fielding, Shareholder) I'll make my point. Mr Chairman as a mutualist, a reluctant shareholder by any stand, I spent a lot of time in the court when this company was extracted from the NRMA Motoring and Services Association.
- At that time the court decreed and approved a communication strategy between the two organisations for which you pay no – which we pay no fee back to Motoring and Services to this day, yet they use a brand that's worth probably \$50 million a year on current figures.
- The court orders at the time in the process of demutualisation allowed for a constant sharing of information between the two organisations. To this day as you know only too well, we extract and share information. I think in fact IAG holds the database to be quite precise for Motoring and Services on the member side of things.
- So you can very readily do some cross referencing there. I suggest we go back and check this. Thank you.
- James Strong: You are suggesting that that was continuing, it wasn't just during the demutualisation process?
- Question: (Mr John Fielding, Shareholder) Absolutely.
- James Strong: And not changed by subsequent privacy laws?
- Question: (Mr John Fielding, Shareholder) No James. Well if it has, then we are clearly in breach because we maintain that current database now. I'll come back to in a question.
- James Strong: Okay, well all I can say is to endorse what Michael's saying, boy oh boy, the laws are very strict about privacy and there's no tolerance of companies breaching that in terms of trying to do marketing and cross selling and all that sort of thing, which is the point of those laws. But we'll have a look at it.
- Question: (Mr Jack Tilburn, Shareholder) Thank you Mr Chairman, Mr James Strong. Ladies and gentlemen I just wanted to bring up one or two matters by way of comment and a small question, because I



don't think – well first of all the comment was that you said, Mr James Strong, that in the annual review there is a report published about the QBE takeover. But I did draw your attention, to the fact, at quarter to ten this morning that that publication, publishing was not in the annual report. Which means that of course none of us are perfect at all. So that's a very bad omission.

The other matter was that on the matter of the takeover, I'm glad one or two people have brought that up, and you yourself. I'm looking at a Sydney Morning Herald article of Thursday, May 22nd which the heading was, 'IAG under fire over bid rejection'. I do think somehow like always when there's nothing of any perfection that the corporate governance rules regulations aren't good enough for that situation that we had with QBE.

Also of course I do not think that the collective wisdom of those people on the board, on the podium was good enough to look at the matter of the QBE takeover.

I will ask the question, I was wondering did you make a complaint? A criticism to the so-called takeover's panel about the machinations of QBE which you have alleged and said to us today? The question on the matter of perfection is, on page 105 of the annual report, you have two columns. One column is total shares held I think by you, a goodly number, 345,000. In the next column on the right says shares held normally, a discrepancy downwards of 332,000.

So why is there a discrepancy of 13,000 shares? And it's a damn pity that you can't be more perfect by putting a footnote at the bottom of page 105 to explain what the two columns are getting at.

You've got to tell us about did you – I don't think you did make a criticism or complaint to the takeovers panel. In my opinion Mr Chairman and what others have said, I really do think that you kept this humdrum between yourselves. It's not good enough for



the IAG shareholders. Well I always said to myself, the other old saying is, a bird in the hand is worth two in the bush.

They were going to put down \$4.60. Well the damn shares are only \$4 now. They've been down as \$3.75, \$3.85. I bet that we will never get the IAG shares up to \$4.60 until about another year goes by. I bet you on that. I bet when we come here next year, the shares in IAG will not be up to the QBE takeover price of \$4.60.

Right, over to you, thank you.

[Applause]

James Strong:

Could you and I have a discussion about that bet after this meeting, and I'm interested in whether you're going to give me some odds on that as well by the way.

You made a number of points here Jack. The first one was that the Chairman's Report is not in the annual report. Well I tell you, there's been that many changes in what's sent out and included in other things and what is not, that I'm confused about it myself. It is a valid point because it's not.

But this is all about trying to reduce the amount of material that's sent out by every company around Australia. So what people have tried to do is to break it down into components so that not everything is sent to every shareholder, and particularly in a written form.

But I must say that until you drew my attention to it in that very friendly chat that we had before we came into the meeting this morning. I don't think people realise how much affection I've got for Jack because he complained to me after a Woolworths meeting two years ago that the chief executive and the chairman went off to do a press conference after the meeting and he couldn't see them if he wanted to. So Michael Luscombe and I actually immediately, when the meeting closed, chased Jack down the escalator and both gave him a great big hug to let him know that



we did appreciate him and not to feel that he was deprived in any way. He seemed a bit surprised by that I've got to tell you.

But being serious, this question about the annual report, I'll just again if Glenn can make a comment about the complexity of that situation.

Glenn Revell:

Shareholders and Mr Tilburn, good morning to you again sir. This year as most shareholders would know, large public listed companies are no longer required to provide shareholders a full annual report unless of course the shareholder opts to receive the annual report.

We were producing over 400,000 annual reports per annum at a very significant cost. Based on this process of contacting each of the shareholders, that reduced down to 5,000 annual reports.

We decided in those circumstances to go forward with a second document which is the annual review, and that contains the chairman's review, and that was sent out to all shareholders who requested a copy of the full annual report.

So Mr Tilburn you should have a copy of that report. If you do not, I am only too happy to provide you with a copy at the conclusion of the meeting.

James Strong:

I gave him my copy this morning. Now getting back to the serious – very serious issue that you raised about the QBE process Jack, and I want to make a comment about that, but then I want to come back to the question of what I believe is really important to shareholders is what we're doing now and what the outlook is now.

No, we didn't say anything to the takeovers panel because I'm not alleging they did anything incorrect. I mean it's a tough world out there and if somebody wants to try and spring a surprise on you and then announce that this was under discussion when it was supposed to be – that's their tactics. QBE as I said is known as being a company that likes to make very low priced acquisitions. No doubt that's in their shareholders' interests. In fact one of the



terms they said, one of the terms they always observe in growing their business is that any acquisition must be accretive to their shareholders in the first year. In the first year.

So to me that's a nice statement if I'm a QBE shareholder. If I'm an IAG shareholder, it means they're not paying us enough money.

As I said before, you mentioned the \$4.60, what is hard for people to keep sight of the fact that what they were offering was QBE shares plus a certain number of cents for each IAG share. It happened at the stage when we were considering it to be equal to \$4.60 but because it is based on their shares it's gone all over the place ever since then so people keep reporting \$4.60 but at one stage even in July and August this year the premium that they were offering using their formula was way down to like five per cent or something of that nature so if a deal had been done it would have depended on what the relative share prices were at any time. Just more recently in the last couple of weeks their share price has improved more strongly than ours has because of some situations in their business. But it does tend to go up and down. So I think people should not just say it was \$4.60 it happened to be at a particular time it goes up and down depending on the market and the relative share prices.

I think it's important for me to acknowledge to shareholders that I know this is a difficult issue, its complex. There are all these legalities about having to get independent advice if you go down that path to make sure that it's a fair and reasonable offer and so on but you must remember that QBE never made a full offer. It was only a partial proposal and secondly, they could at any stage have gone to the market and made an offer to any of you for your shares and they declined to do so and they said they couldn't do that unless every director here made a full commitment from the start that we would support a takeover proposal. So I hope people get a better understanding of that and a better understanding of how difficult it was. This board spent an enormous amount of time



and discussed it. We had outside advice and these are always very difficult decisions for boards to make. But we believe that the long term interest of our shareholders was not to sell at some low price because of a bad cycle that we were in, which we've apologised for today, several times over. And we believe that the big issue now is what are we doing about the future of the company. Are we getting on with a course of action, new tactics, and new ways of doing our business and a new structure and a lower cost structure which will be to the benefit of our shareholders longer term. What's happened has happened and I hope that you can see regardless of the regret about that, that we are just very focused on getting on with it and restoring shareholder value as we hope that the insurance cycle improves. Mike has said that we've been trying to reprice things where it's obvious that the pricing hasn't been appropriate and all of that is proceeding quite well at this stage. So thanks for that question Jack. I do urge people to look forward I know that some aspects are regrettable about what's happened.

Sorry, just before I do that could I just say Jack I didn't comment on the shares held. Those shares are held by my wife. So one lot is in individuals name and the other is by a related party is the correct phrase is it.

Speaker: Key management personnel, it's an accounting term.

James Strong: So there can be a difference between two listing of shares. One is what is owned by the individual and one is owned by dependents or related parties to them. And in this case my wife has some shares as well but all the others are in my name and most of my shares I purchased through sacrifice of directors shares.

Question: (Cecilia Cook, shareholder) Good morning. I just want to bring to your notice that the University of New South Wales are running magnificent seminars on global warming and also on the renewable energy. Now one of my colleagues, a Nicole Kuepper won the intellectual Olympics for her work on solar power and making it affordable for developing countries such as Africa and



maybe certain poor farmers in India. Although India itself is very, very forward and advanced but the poor people are not and we've got to bring a little bit more equity.

Now there's also another source of incredible information that has been [unclear] since before the Second World War. First by Professor [Pikar] who not only overviewed the world from balloons and such but he went into doing a full survey of the ocean floors of the whole of our earth. And by doing these surveys, first it was him and then it was Jacques Cousteau who had the ship from the top and also underwater submarines. Now it has been mapped all the various fault lines that run around the nations. One of these fault lines of course is running on the western side but the eastern side and you can tell they were able to predict the terrible tsunamis and devastation of New Orleans of Florida but we are about to have all the way up the east coast of America some terrible tsunamis that will affect from Boston down to Washington, New York, all the way down.

James Strong: If you'll excuse me for a moment. I have to interrupt. Look I know that you are a regular attendee of our meetings and you have a bit commitment to the environment and the areas that you're speaking about.

Question: (Cecilia Cook, shareholder) We've got to save this world you know and by knowing and knowledge we know what we're on about.

James Strong: Yes I know that but it's not relevant to the business.

Question: (Cecilia Cook, shareholder) Perhaps you're not aware that there are other nations that, well there's France of course, there is no other people that have mapped the bottom of the sea.

James Strong: I have to draw your attention to the fact that most people who are here today are here to talk about the company and its performance. What you are referring to is very interesting but I'm afraid we have to go back to the business of the company. So thank you for those remarks and your continuing interest in the environment, thank you.



I'm sorry we've had to turn off the sound system because other members of the audience are urging us to get back to the business of the meeting. So I apologise I know you are very interested in this subject and I commend that interest but we are obliged to get back to the business of the meeting. So thank you for your comments.

Question:

(Joe Nagy, Shareholder)

Thanks very much. Mr Chairman there's one thing that's been lacking so far and it's not a criticism of you but two dangerous words derivatives and AIG I'd appreciate or I'm sure some of us would appreciate hearing how this may have or has affected IAG. The second thing I want to get across to you is the issue of a difference of opinion between many of us here concerning the word performance and how the board sees performance. The word performance, we're not really interested in how devoted you are to the job, we're not really interested in how many times you turn up at AGMs. What we are interested in is how well you have increased shareholder wealth. That's the issue.

The other point that was made earlier is an excellent point, one of the best ones I've heard so far and that is you should consider looking at the amount of directorships you have because even though I agree with you that when you were told that advice when you were running Qantas, those were different times that we are in now. Now you know what we've got. We've got sub primes, we've got derivatives and so forth and while I'm talking about that, let me make another point to you, don't anyone here take seriously the ratings of rating agencies. They have rated sub primes you know that, I don't have to go any further, I'm not going to beat you over the head on that one. So I'm not saying you're bad, I say your balance sheet is strong, congratulations; but your performance has been lousy. Thank you.

James Strong:

Thanks Joe. The first point, can we just take them in order. The first point, derivative and you use AIG, and I'm afraid some people think we're the same company. If you'd asked me four years ago,



I would have said I wish we were. If you asked me now, I'd say I'm glad we're not.

I'll ask Mike to make a comment about that, because it is a very important point.

Mike Wilkins:

Thanks Chairman. During my presentation Mr Nagy I have tried to talk about the strength of the investment assets that we have. IAG does use derivatives in pursuing some of its investment objectives. But basically they are not of the speculative type. So where we use them, they are either cash covered or are covered by underlying physical security. Meaning we are not pledging what we can't offer.

In terms of what we hold, we hold no collateralised debt obligations, nor any other sub-prime type activity, and I did demonstrate that I think it's 96 per cent of our fixed interest investment assets are either in cash or instruments rated AA which I understand your comments about the ratings agencies. But I think some of the more exotic instruments that we have inside that are in fact the paper of the four main commercial trading banks in Australia, which I'm comfortable to hold.

In terms of our exposures to AIG, we have no material exposures, and in fact made a statement to the stock exchange to that effect when AIG did hit. I think the principal exposure that we have is that a company that is 60 per cent owned by AIG but which is separately listed on the New York Stock Exchange is one of our reinsurers. It provides about \$75 million worth of catastrophe reinsurance coverage, in a layer between \$500 and \$600 million in terms of our catastrophe coverage. To my knowledge, we haven't eaten into that layer probably since the Sydney hail storm in 1999.

Apart from that, I'm sure we probably do have some day to day dealings in terms of trying to recover from AIG, in terms of their insureds being at fault in terms of accidents and other things with our insureds. But it's immaterial in terms of IAG.



James Strong:

The second point Joe that you raised was performance. I understood that point and it's a valid point. I hope you'll acknowledge that we haven't tried to evade that at all. That is the performance that matters to shareholders. But I do ask for some consideration to be given between those aspects which are part of a bad downturn in the industry and have affected everyone, and we take responsibilities for the others where it's been due to a deliberate action that we've taken.

The purpose of a meeting like this is to allow people to give us stick over things like that and I've never noticed any reluctance amongst people to give us stick. You're entitled to do so in those areas, and I hope we've made that very plain to you.

You mentioned again this question of the extent of commitments and so on. [Pause] I'd just like to say that's an interesting observation. Certainly being a director or a chair of any company today is quite a hazardous occupation and the sense of responsibility on behalf of shareholders, and when you look at the number of people who's retirement has been affected by superannuation and so on, we've had such a long period where everyone assumed it would go up forever, and you look at the impact on people.

These sort of public responsibilities really are a very serious issue, and I think a lot of people are certainly cognoscente of that, and I am.

I trust you haven't been talking to my wife about asking me to resign from doing less work, but anyway, I'll avoid a conspiracy theory there.

The last point you made which again was a very good point, and that was the role of rating agencies in the financial meltdown that's occurred. I don't want to make a great speech about that, but I think that is something that is – the full ramifications of that are still yet to be brought into the public domain and I think you know that in the US, there's going to be some very severe witch-



hunting going on about that. Because basically what went wrong, we know that economic cycles have always been around and we get into a heated economy, and asset prices get overpriced. Share prices go up too high and there's some fallout and so on. We've had a long period of that not occurring I think because of central banking control over rates of inflation and so on. But certainly what absolutely got lost sight of, particularly in the latter period of this last very solid economic performance was people lost sight of risk. It was as if risk didn't exist. That was the fundamental thing that brought the whole lot unravelled in the end.

It is a very good comment. I think you've seen a few people comment about it. The former Prime Minister Paul Keating had a bit of a go about it recently. But in the US, it's going to be pursued [Pause] Thank you.

Question: (Mr John Scott, shareholder) Thanks Mr Chairman. From what I've heard so far, we're starting to go over old ground around with the questions. I'd like to move that the financial report be – the vote be taken that the financial report be accepted as presented.

Let's move on to some important business.

James Strong: Thanks Mr Scott. I think we've given it pretty good airing, but I think there was still one or two over on number one, but thanks for the comment Mr Scott. I don't want to deny anyone a fair go, so could we have number one again.

Question: (Mr [Peter Star], shareholder) Thank you Mr Chairman. Just a couple of points Mr Chairman. David Tweed seems to be able to get the shareholders to write us letters to buy our shares, so maybe we need to bring your attention?

Two questions I have in relation to the United Kingdom mess or debacle, however you want to express it. It is a debacle. I stood here last year and asked the same question about how much we're going to lose out of that. And also the other question is in relation to the shareholder value. Six dollars sixty some two and a half



years ago, and it's got as low as \$3.45. Now it's come up a little bit.

Do you ever see where we're going to get back up to \$6.60 and plus? Thank you.

James Strong:

The first point about Mr Tweed, I think you know that we've done everything we possibly can to prevent people like Mr Tweed acting in the way he does. This is the fellow who writes to people and offers them a price for their shares which is way below the market value. For some reason or other, he still does succeed in doing that.

He is able to apply for our list of shareholders and I'll just ask the company secretary to make a comment about that.

Glenn Revell:

Sir, Mr Tweed actually hasn't been active in IAG stock for a reasonable period of time, but some of you may have received letters from an organisation called Hassle Free Share Sales. In fact only a few months ago they were offering something like 50 per cent of the market value of your shares.

This is a huge challenge for the company and my personal view, it's not one that we can solve as a company. It requires legislative change. I am encouraged by feedback from the minister of superannuation and corporate law. Mr Nick Sherry, he has taken an active interest in the issue of unsolicited share offers, and indeed we have written to Mr Sherry, to the federal treasurer, and also to Mr Sherry's predecessor on this issue to try and get this issue addressed.

All I can say is that shareholders should always seek independent financial advice if they receive these letters. Most of you probably would have received anywhere upwards of nine letters. That's the total number of offers that have been made by Mr Tweed and others of his ilk.

So most of you would have probably cast this aside and put it into your recycle bins.



We're looking forward to a change. I'm not expecting it to happen in the short term. But it will be - our expectation is that applicants like Mr Tweed and hassle free share sales will have to demonstrate a proper purpose before they can purchase a copy of the register in the circumstances in which they can certainly satisfy the company that there is a proper purpose for the use of the register.

James Strong:

The second point you raised related to the UK. I think there's been quite a bit of discussion on that. One point that we haven't mentioned is the reason why we decided to act to recognise that part of the strategy that wasn't working is that the chief executive and myself went to the UK and consulted very widely on the outlook for the industry in the UK. Everybody knew that premiums should be increased in the UK and a movement upward had started.

The problem is that what has emerged is that some of the big long established companies in the UK have got ratios where they're actually making a loss on writing insurance but they've got heavy provisions made from prior years' operations and they're using them to make releases to keep prices down and not charge realistic rates. In our discussions with actuaries and other people who are experts in the market, they expected that to continue for several more years and we thought to continue to lose money there was not an acceptable strategy.

The last point that you made was the one about shareholder value. I'd have to say that everything has to be viewed in its context. When we last met here at an annual general meeting the share price closed on 28th October at \$4.42. Since then it's gone down by roughly 20%. The all ordinaries index has gone down 43% since that date. Now that doesn't make it acceptable or anything of that nature but I think it is important to recognise that it's relative and it's a question of the general environment which everybody is operating in. Thank you.

Question:

(Alison Radford) Thank you. At the beginning of the meeting a gentleman raised the issue of the advertising. So may I humbly



suggest that maybe not so many unwords in the advertisement, it would read a little bit better.

The second comment that I have to make is [inaudible] 25,000 claims made in the western suburbs of Sydney when that very strong hail storm struck and I'm aware that that was a tremendous workload on a lot of employees and I think that that was dealt with in a very good manner.

James Strong:

Thank you. Thanks for the comments about the advertising. I'm sure that Mike will add those to all the other free advice he's got about advertising. It's always a very vexed issue and I always say to the chief executive that it's a matter for management to decide, don't show it to the board because everybody will have a different view about it. But he's very courageous and did. So I don't know whether you want to make another comment about and thank you for the comments about the western suburbs. I think that's worth noting. Would you like to enlarge on that?

Michael Wilkins:

I shall. Firstly, thank you for your comments. The advertising, as I said earlier, was designed to get people's attention and I think it's actually achieved that and certainly the core volumes that we've seen have borne that out. As James said, I understand that all advertising is never everybody's cup of tea but it think it's actually achieved the objectives that we set out. But I do note your comments on that.

In respect of the hail storm in Sydney, I've got to say I was humbled is about the only word that I could use when I saw the dedication of our staff, including a number of those people who worked exceptionally long hours, including a number of people who were there on Christmas day and other public holidays through that period to attempt to help our customers. We did have over 25,000 claims. The majority of those claims were rectified. That is we'd actually made the repairs by about Anzac Day which I think was an exceptional effort and I mentioned during my presentation that I think an important thing that we try to achieve is an outstanding customer experience and I think our people



really come to the fore at difficult claims times such as that and I do thank you for your comments and I'll make sure that that's passed on to all of our claims people.

James Strong: Thank you very much. I think we'll make this the last question in this section of the meeting.

Question: (Dianne Mann) I'd last to last a couple of questions that are about climate change and the environment and it does relate to the future of this company and the insurance sector as a whole. First of all, I'd like to ask if you can comment on progress made with the development of the principals of sustainable insurance and whether an IAG representative is still co-chair of the UN working group on insurance?

Just a general question on whether you feel that leadership of IAG in areas of climate change is substantially the same right now as it was this time a year ago? Thank you

James Strong: Thanks. I'll ask the chief executive to respond to that.

Michael Wilkins: Thanks James and thank you for your question. In terms of looking at climate change and its impact on our company, as I mentioned earlier, what we were seeing coming through and the ratings actions that we had taken, we were also looking to revise some of our product suites to encourage people to actually be more environmentally conscious. In New Zealand, for instance, we do have a product that encourages people to drive less kilometres and we will certainly them a break on that.

In terms of what we are doing in Australia, we are both encouraging our customers and giving them demonstrable examples of how they can reduce their carbon footprint as well as actually giving them breaks in terms of, for instance, buying environmentally conscious vehicles. So we are trying to deal with it on that front and deal with it in a very practical way.

In terms of your question regarding whether a representative is still co-chair of the UN working group on climate change. No. Now those things normally rotate anyway. However that person is no



longer with the organisation. But I don't believe that our commitment to climate change is any less today than it was a year ago. In fact what we are talking about now is really trying to embed the concept of climate change and the environment in the way in which we go about business as usual.

We are now talking inside our organisation about business sustainability which is, to us, all about the combination of economic sustainability, doing the right thing by our customers, making sure that we've got a good and engaged workforce, trying to actually make sure that the product that we offer to the community is as good as it can be and that we do have regard to the environment in terms of the way in which we are also looking to conduct our business. So I believe that that's a broader commitment and certainly something that we take very seriously inside IAG.

James Strong: Richard, I think you wanted to You've had one go but I'll give you another go.

Question: (Ian Scandrett, shareholder) It was an interruption, James, and it's Ian Scandrett, shareholder.

James Strong: Ian, I'm sorry.

Question: (Ian Scandrett, shareholder) No association with Richard Talbot, just for the record. Mr Chairman and welcome to Mr Wilkins. I'm going to direct part of this question to him. We going to have a change in the way school buses are funded in New South Wales going forward. That will probably, I am reliably informed, result in a lesser number of buses travelling on a route even though the average occupancy on those buses may increase. In other words, there will be children, and everyone has got grandchildren or children in this room, standing on those buses.

Now my young bloke who is ten said to me the other day when I put him on the bus 'Daddy, why don't I have to wear a seatbelt when I'm on the bus?'. I said 'are you sitting down or standing up?'. He said 'I was sitting down. There's no seat belts' and I said



'And do you stand up sometimes?. He said 'Yes'. So under law when he's in our motor vehicle I can be fined for allowing him not to wear a seatbelt. He's compliant with this in every regard. We're all compliant with it. Put up your hand if you don't wear a seat belt on public roads.

The point being, through you Mr Wilkins, we will have an increasing risk in this area. I've done a bit of digging around and I found out there's about 300 claims out there at the moment, buried within the STA, for serious head injuries from passengers that have taken falls while standing in public buses.

I believe they are locked in a loop of ever-decreasing circularity. They're not being resolved. Some of them are quite severe head injuries. This suggest for us, as a large insurer, a major risk. And it suggests for me that we should take some leadership on this and start this debate, have a look at this, talk to governments about where this risk sits.

I think the inevitability of it is, if one approaches it from an Oc Health and Safety basis, technically every seat should be occupied. No people should be standing. This will probably create jobs back for those bus drivers who may be losing their jobs. And the bus lanes will probably get a bigger run. But you probably can't compel children to put seatbelts on and run an efficient bus. But you can certainly have them seated.

The risk for us, Mr Wilkins, is one that worries me intensely. If a bus has a collision as an alleged consequence of an act by any one of our insured, particularly under a comprehensive policy where you think you have that security, what liability are we exposed to? That's my first question.

Michael Wilkins:

Thanks Mr Scandrett. I think in a lot of cases, the legislation concerning buses is driven by the government as opposed to ING being able to impose its will on that. But in conjunction with NRMA motoring and services, we will actually take that up with the government. Because I think it's a valid point that you make.



In terms of what we're currently seeing from a claims perspective, we are not seeing any increase in terms of that, which I'm very pleased about. In a lot of cases now that is partially covered or consequentially covered by some of our policies. And clearly we will keep an eye out on that.

The point that you make around the number of claims that are sitting inside state transit and seem to be going around and around is, I suspect, also a problem from the state government which self-insures on that front. But also the recent changes the government has made to the CGP schemes here means that critically injured people now fall within a government-run scheme as opposed to falling within the purview of insurers such as IAG.

I do take your point and, as I said, in conjunction with NRMA motoring and services, we will take that up with the government.

Question:

(Ian Scandrett, shareholder) Thank you. I'm led to believe there might be some change coming in that area of self-insurance.

My second point is on the matters of the share registry. James, I'd invite you to possibly put a press release out in the next week or so just saying how you've reviewed the information sharing in relation to the issue we had before.

Thirdly, on the matter of performance – and I note that some of the directors do have an interest in the company, in terms of salary sacrifice. James, I think you're one. We're all feeling pain at the moment as shareholders. Maybe this is an opportunity for the board, between now and the next AGM, to take leadership of this.

There's a lot of discomfort in the marketplace in terms of directors' rewards and packages, and ever-increasing proposals put to shareholders. Maybe we've got to go back to the drawing board on this. And I invite you, chairman, to put that on the board papers and maybe show some leadership as a board. Thank you.

James Strong:

Before you go, I'm not too sure what specific aspect you're alluding to.



Question: (Ian Scandrett, shareholder) James, the pain you're feeling at the moment we are feeling very raw. You're feeling it only in terms of those shares that you and your wife hold. I'm suggesting to you sir that, if I asked the management staff through you to put their hands up, those who are on a base plus performance including bonuses, most of those hands in the front row will go up.

I'm saying to you why don't you consider a scheme at board level. It's time for a change, sir. You know the press is full of outrage over exorbitant salaries to senior staff and to boards in particular. I haven't looked at your package, Mr Wilkins. You might like to just mention it to the meeting. But I'm sure that something like that at a board level, where you take more of the risk, sir. By all means then win if we're all winning.

James Strong: Okay, I'm with you now. In fact we've just introduced a new provision to say that our senior management must hold a certain number of shares. Which is done by a few companies but not very many. Two years of his fixed component of his salary. And we give him some time to build up that number of shares, because you might not have the cash immediately. But that also applies to all our senior management. We've only introduced it in the last six months. One year for those below Mike, but two years for Mike. So yes, we've already taken a step in that direction.

I think also, if you've read the *Financial Review* this morning, there's going to be a lot of continuing discussion about remuneration of everybody from directors right through. And I think whilst there'll be a lot of smoke, there's going to be very interesting discussion about that. And perhaps some changes in direction.

Question: (Ian Scandrett, shareholder) Well then I invite you to call together maybe a small focus group. Maybe you want to call it market research. I'm happy to be involved, chairmen. Get people in this room to see if we can come up with some suggestions for you to consider.



[Applause]

James Strong: Thanks. I propose to move onto the next item of business. I think everybody's had a fair go. There still are major items to be discussed.

So that moves us onto the question of those matters where we have to take a poll.

[Instructions on new voting technology]

James Strong: Thank you very much. I'm sorry but the vote doesn't automatically make Melbourne Cup a holiday. Sorry to disappoint you on that. The other message is simply don't knock them off. So if you would return these as you leave the building.

Can we now go to the resolutions which are before this meeting?

Question: [Inaudible]

James Strong: Yes, it is and that's why we've had a representative from the independent group. It's not from IAG. It's a service provided to a whole number of annual general meetings. For instance, Qantas has been doing this for the last few years and it's very important you have an independent group who have got nothing to do with the company and that the data is checked and double checked to make sure all of your entitlements are on there for you to vote. Thank you. It's a good point to highlight.

So now that we've all mastered this technology, the next thing is election of directors. So there are four candidates and only three positions. Resolutions one to four are set out in the notes of the meeting and relate to the re-election of two directors and the election of one director the board. I now propose to proceed to a discussion on each of resolutions one to four being resolutions in relation to the election of directors to the board of the company. These items of business will be discussed in succession and polls taken after each resolution for attendees to register their vote.

As I am one of the directors standing for re-election under resolution two, I will ask Mr Brian Schwartz who is on my right



here to chair the meeting during the discussion and voting on my election. By now you will have had an opportunity to read the explanatory notes that accompanied the notice of meetings on the candidates. They give a brief background and experience of the four candidates.

All candidates must receive more votes from shareholders in favour than against in order to be re-elected or elected. I will invite each candidate to address the meeting in the order of the resolutions for the re-election or election of directors set out in the notice of meeting. Shareholders will then be invited to speak to those resolutions. So the first resolution is that Mr Brian Schwartz be re-elected as a director and I now invite him to address the meeting.

Brian Schwartz:

Thank you, Mr Chairman, and good afternoon ladies and gentlemen. When I stood before you a year ago seeking election for a further three year term I did so believing that I'd learned a lot and that I was well prepared to face whatever challenges the next three years would bring. However a few things have happened since then. The first is that one year, rather than three years later, I stand before you again as a result of a requirement that at least two existing directors retire by rotation each year and as there was only one due to retire a second director had to stand and I drew the short straw. So here I am again.

The second thing is that I didn't expect the world would be in such a substantially different place to where it was twelve months ago. It's been an extremely challenging year but, as you've heard from James and Mike, our company is in a stable position with a clear strategy and most importantly we have the right people to implement that strategy. Change has been significant and continuous and I know that if we had our time over again we may have done some things differently but I certainly feel that we have addressed many of the substantive issues and we can move forward with confidence.



In addition to my board role in the last 12 months, I have served on the audit committee and as chairman of the nomination, remuneration and sustainability committee. A committee that allows me involvement in a whole range of areas of particular interest but specifically people and culture. With the changes in the board and in senior management this committee has had a busy year. It continued to refine the group's incentive plans to ensure they are appropriate and relative and to ensure that our new executives, and indeed those who have left us, were treated fairly and appropriately. I believe that by and large we managed to achieve that balance.

Last year, and again this morning, the issue was raised as to why an executive of another organisation, as an executive of another organisation, I'd sought to take a non-executive role at IAG. I explained last year, and indeed James covered this morning as well, that when I first contemplated taking such a role I discussed it with my chairman at Investec Bank and we agreed that focusing one's total attentions on one organisation leads to the danger of one becoming very narrow in one's focus.

In fact, as a result of that discussion, we agreed that not only should I take directorship outside of my day job but also that I should take a not for profit directorship and in that context I serve as the deputy chairman Football Federation of Australia. So despite the 37 IAG meetings I've attended in the last twelve months I haven't changed my view at all. It does require more than an eight hour day but I thrive on the involvement and indeed on the challenge.

This isn't an easy industry or indeed company to grasp but as I continue to expand my understanding, I am delighted to have the opportunity to stand again even if it is a bit sooner than I had anticipated and I thank you for your consideration of my re-appointment. Thank you.



James Strong: Thanks very much. So we'll now take anyone who wishes to speak to this resolution. There has already been some discussion but I open – number one.

Question: (Michael Perry) Thank you chairman. As you mentioned there's been considerable discussion of this subject already and in fact I wasn't going to repeat it but you've put me on notice by saying that the ASA, for whom I carry proxies for in respect of some 2.4 million shares, was going to speak to it so I don't want to disappoint you.

I was a little surprised when I saw that Mr Schwartz was up for re-election once again having stood up and opposed his election only just a year ago. However I understand through the quirks of the constitutions that that's the way it has to be. I have heard the justifications for people in executive positions to take non-executive board positions with other companies.

I have to say I remain extremely sceptical but I'm not going to ask Mr Schwartz or you, chairman, to repeat the comments that you've made but rather to suggest that, and perhaps not in connection with this motion, but at a later stage you might, chairman, explain to us how the board reviews its own performance. Do you use outside agencies to assist in this? How often do you do it? Are you in fact changing your practices in the light of the difficulties that you are encountering both internally and externally? I think that might be useful for shareholders to hear. Thank you chairman.

James Strong: Okay, I will respond to that quite immediately. We are in fact due for a review at the moment. The normal practice with corporations is to alternate between internal and external because the external is a much more involved procedure, if I could put it that way. The reason why we're a little bit behind on that is that there's been, as you would have seen, some change in the composition of the board and we're expecting that there will be some more so we'll select a time as soon as possible and I think we're actually up for an external review and we'll get somebody who has experience



and expertise in that area which would be decided by the board.

Thanks

Question:

(Giles Edwards) Mr Chairman, just a couple of remarks if I may. Specifically on this resolution but also generally in relation to your re-election and that of Mr Twyman. I'll be as brief as I can and conflate the three.

I agree with you that a CEOship and a directorship, non-executive, is not a bad idea. I think it's a very good idea and I'm convinced that that is a good cross pollination. Except I would just add one rider that they don't occur simultaneously. I agree with the Shareholders Association gentlemen and others who have said that really a CEOship is a full time job at full time pay for this, that or the other company. I don't quite understand why, in the case of our own CEO and also specifically in the case of Mr Schwartz.

Mr Schwartz, it says in the annual report, was at Ernst & Young for 25 years and CEO of that organisation since 1998 to as recently as 2004. Now surely the experience that he gained over such a long term in such an august company would carry through to current date without him necessarily having to serve on another company. He would have learned a few lessons from Ernst & Young over 25 years that would still carry through.

Similarly with Mr Wilkins, although I know he is not up for election, I note in the annual report that similarly he, up until as recently as 2007, was a director of Promina Group and Alinta. Equally that experience would carry through to today quite equally with the rest of his general involvement in business as a CEO of this company, not a small company, so that he would not necessarily contemporaneously need to have a CEOship as well as a directorship as well.

In relation also to the other resolutions, if I can just briefly skim over that so that I don't jump up at every single second, I am not totally convinced by your response to me previously about directors doing all of their duties and numerically attending the



various board meetings. It is not just the number but it is also the quality of their attention to detail and also, in the current environment, having a little bit of wriggle room in case something like a takeover or an international crisis, both of which have hit this company in particular or the threat of a takeover. There needs to be that little insulating layer.

Ironically, I'm just looking to respond to your previous comments, the attention of a lot of our directors, however committed one way or the other, to one of the more fundamental duties in this company I would have thought would have been the attendance at board meetings of which I sympathise there have been many in the last year. But Mr Colebatch, 22 out of 24 meetings attended. Mr Hamilton, 23 out of 24 meetings attended. Ms Hynes, 20 out of 22. Mr Ross, 23 out of 24 meetings. Now that does not – and those were the directors who are less committed than the ones I mentioned earlier. A preponderance of the board is very over committed, yourself as much as Mr Twyman and the others that I mentioned.

I just can't quite understand why directors, particularly in these current circumstances, would need to have a superfluity of boards and commitments, commercial and non-commercial, ASX listed or private, which can threaten not just the quantity but also the quality of their basic business experience and whatever they bring to board meetings in the guidance of this company. I think it is a threat that's happened over the years.

At least since the year 2000 I've been told the same response almost word for word as you gave to me only an hour or two ago about the quality of the directors always coming to their meetings, doing their job. It was told to me by the chairman of AMP before AMP had deep and divisive problems five or six years ago. It was told to me by the former chairman of AGL four or five years ago just before they had deep and divisive problems about some New Zealand contracts that went belly up and threatened the company's profitability very, very severely.



Ditto, Stan Wallis, the then chairman of Coles when Coles was going through a lot of problems. Brambles, Caltex, Pasminco. I think we all remember Pasminco, deceased. AGL and DJs. All of those companies and more over the last six, seven, eight years have had a preponderance or a worrying lot of over committed either chairmen or directors and had a hell of a lot of problems either internally or externally generated and those companies simply didn't cope. Largely because a lot of the directors, in my view, were very over committed with multi directorships and particularly chairmanships and they just don't have that extra time to commit to the business of this particular company.

I just think it's a danger waiting to happen and I would vote against three of the four gentlemen up for election on the basis that they are simply already overly committed and the chair has not taken a strong line well before today. These concerns were voiced last year by the Shareholders Association and others that a lot of the directors were over committed either with directorships or CEOships and I think it's up to shareholder, if not the chair, to draw a line and say that is it, enough is enough.

Question: [Inaudible]

James Strong: Yes, I will restate that in a moment. So I think that's all the speakers on this motion. Okay, so I now direct that the poll for resolution one be taken and that attendees register their voting intention by pressing the appropriate number on their keypad. Press one to vote for this resolution, press two to vote against this resolution or press three to abstain from voting on this resolution. I now ask people to cast their vote.

Question: ([unknown]) Surely it would be proper to hear from all candidates and then ask us to deal with the resolutions one, two, three, four and they're done.

James Strong: No, we decided - we've been over this. We had quite an internal discussion about this and we think each one should be treated on its merit. You can argue it both ways but that's how the order of



business of the meeting is set out and that's how we'll be proceeding.

Question: (Ian Scandrett, shareholder) I'm not suggesting that you should do any different other than to put the four resolutions at the end of the presentations by the directors.

James Strong: I understand you've got a view about it, Ian, but we had a good discussion. We decided put the person up, have the discussion, vote. Then go to the next person and do it that way. We had some people who agreed with you by the way but the proponent view was very clearly that we should do each one on its own merit as we go through it.

Okay, so you've had ample time to record. So thank you. Your votes have been added to the direct and proxy votes received already by the voting deadline and the preliminary result of resolution one is now shown on the screen. Soon to be shown on the screen. There we go. So you can see the result is 98.12% in favour so I now declare the poll closed on resolution number one. I'll now step down as chairman and hand over to Mr Brian Schwartz for resolution two.

Brian Schwartz: Thank you, James. Resolution two is that Mr James Strong be re-elected as a director. The text of resolution two is set out in the notice of meeting and I now invite James to address the meeting.

James Strong: Ladies and gentleman, I'm very conscious that you've heard a lot from me today so I'll make this as concise as I can. My background and qualifications are set out in the papers sent to you as shareholders. The chairman's review I wrote very deliberately and wrote every word of it myself to try and give a very personal account to shareholders for what had happened and why we had taken certain actions and what we were doing going forward. As I said at the outset in that speech to you this morning, it has been a very disappointing year. There have been big disruptions, both internally and externally and many changes.



As I mentioned my reason for standing again was for stability and I was requested by the other board members and the CEO to maintain a period of stability while we go through these quite significant changes in the company. I don't expect to serve the full three year term. In fact if I did I would actually go past ten years which we say in our constitution is not desirable. So therefore the board has the question of my succession on its agenda and we would prefer to do that in an orderly and planned way so that there isn't further disruption to the company. As you know, it's not a question of me saying whether I want to be chairman or not, it is at the discretion of the board. So they have that on their agenda and I think that we'll be best served by doing that in an orderly and planned manner.

I can assure you that I think the reason why many directors are heavily committed is because of something that hasn't been greatly commented on today by some speakers and that is their capabilities. I can assure you that I will continue to put every effort possible into making sure that IAG comes out of this difficult period. I work very well with the new CEO. I back the new CEO and the new management team. I'm very dedicated to making sure that we restore value to the company. Thank you very much.

Question:

(Trevor Cook) Thank you Mr Chairman. I didn't have an opportunity to make a comment before but what I'd like to comment on is a bright light on the hill is the appointment of Mr Wilkins. You stole my thunder when you said that QBE was a good company and they wouldn't take on anything unless it was profit creative in the first year. Maybe that's the reason why they wouldn't take on AIG.

But you also mentioned that you went with Mr Wilkins to London in connection with the review of that business over there. Did you go with Mr Michael Hawker when he went to England and was that company in England profit creative in the first year? Also how much have we lost in billions so far due to that acquisition?



James Strong: The amount of write off is the amount that is set out in the annual report, set out in dollars. Was I involved in the original purchase of the company? Yes, I was. The whole board was. That's how the board works. The rest of your question, if I can enlarge it to say, was proper due diligence done? Yes, it was.

The other aspect I mentioned, why I mentioned the visit to London, was to give reassurance that we did take steps to understand why that purchase had not performed and then to make a decision about what was the best thing to do about it. We decided rather than to try to – the big danger was if we kept investing money there to try and improve that company and the market was still in a very poor state, then the risk was that we go on destroying more shareholders funds.

So I specifically mentioned that that we went to London to make a decision whether to cut the losses and sell those assets and I need to say again that the other part of the businesses that we bought in the UK are performing very well. So there was a mistake made in relation to those and I've been very open about acknowledging that and apologising for it here today. I would like to say it's a question of what we now do to get on with it from here.

Brian Schwartz: I think I'd just add, James says that it is a decision of the whole board and of course it is. I think the reasons for directing the question at the chairman are obvious. But the reality is that all the decisions that were made were made by the whole board and I think the board has to take responsibility for those, not the chairman alone. I'd just like to add that.

Question: (Jack Tillburn) Yes, thank you Mr Acting Chairman Schwartz. Mr Tillburn wishes to do a bit of oratory. It won't be as good as Barack Obama. But I've held back on these matters of the outside directorships. Too many outside directorships. This is Michael Perry's speech. We have had very, very strong feedback from many members here today about the terrible plight and the terrible toxicity that some of these directors have too many outside directorships.



So money is the root of all evil. They're over greedy, grossly over committed, too much on their plates, grossly over loaded, grossly over greedy which I've said before. This is absolutely unacceptable in today's culture. I think Mr Schwartz, through you to Mr Strong, he's living five/ten years ago when there wasn't much about ACCC or ASIC or [APRA] or a world meltdown. Life has moved on. Time as moved on. We're not back in 1998. We're in 2008. So we are polarised on the matter of too many outside directorships. The chairman and other directors are at the North Pole. The retail investors we hear today are at the South Pole and even Rudyard Kipling said 'east is east and west is west'.

So there is a culture of difference, of differentiation. We're polarised. But where there is problem, ladies and gentlemen, there has to be a solution. I want Mr James Strong to put a bit in his teeth like a horse and cry out that some of these directors on the board today should be tapped on the shoulder. That's the culture. Tapped on the shoulder and told to step down, get out, let that one or two boards go.

We've got to have changes Mr Schwartz and as Barack Obama was on the political we want change. We want change from all these outside directorships by these directors. Not only on AIG but in the 1,600 other companies registered on the stock exchange of the Australian Securities Exchange. Thank you ladies and gentlemen.

Brian Schwartz:

Thank you for that Mr Tillburn. Any other questions on this topic?

Question:

(Richard Wilkins) Thank you chairman. I should just emphasise I'm not related to the CEO. Without rehashing it ad nauseum many of the things that have been said on this subject, I think I would just like to talk about the question of responsibility which I think is perhaps an ethical matter or a moral matter as much as anything else. I certainly agree, as Mr Strong said, that the directors are all very capable people and certainly he is particularly so. He's also had the good grace to apologise for the bad performance which is certainly attractive. A lot of people just wouldn't do that.



However, he does say in his report that the performance has, of course, been very disappointing during the year, that the board accepts responsibility for this and earlier he said the same sort of words and that the board was not seeking to make excuses which is good. I think the problem though, as somebody said a lot earlier, is that the former MD has gone, several hundred staff has gone. One could argue in many of their cases, probably through no fault of their own, it does raise the question that the board talks about collective responsibility, but in practice, does that just mean ultimately apart from the embarrassment of having to face shareholders once a year and apologise for these things, that actually nobody on the board suffers at all and nobody takes any pain.

It's pleasing to hear that the fees will be frozen for next year, but nonetheless they are high. They rose 17 per cent I believe in the chair's case and 10 per cent for most of the other directors.

In the chair's case, his fee for this board is approximately the same as the chairman at Westpac which is a much larger organisation. I guess I suppose the question really is what does the board actually mean by taking responsibility. Mr Strong said earlier that it's not about having a mass resignation which I agree would be stupid, but on the other hand it really feels as if nothing apart from squirming a bit today, nothing is actually going to happen. Nobody accepts fee cuts, nobody seems to be resigning. What does actually taking responsibility really mean to this board? Thank you.

[Applause]

James Strong:

Through you Mr Chairman, Mr Wilkins I thought they were well chosen remarks. Well I've tried to respond in the chairman's report, was to say that there is going to be board renewal and I indicated that two directors have changed. That Philip Twyman on the left has come on board and he's up for re-election today because of the way the system works. I've indicated publicly



before that we expect to appoint at least another new director, and I've also indicated that during my term, I will hand over as well.

So I think that's trying to address those points that you made.

Brian Schwartz:

I'm sorry, I was just asking Phillip Colebatch when he came on board. I'll just add to that James and I may have missed a bit of what you said, that of the directors that we have here, only three have not been on the board. In other words, all but three came on board before 2007. All the rest are new directors who've been on the board only since 2007.

That project of renewal and the process of renewal has continued quite strongly. Partly to have the renewal and partly to bring on additional skills. I think that broader range of skills now certainly exists on this board.

I don't see any other questions on the floor. That be the case, I now direct that the poll for resolution to be taken and that attendees register their voting intention by pressing the appropriate number on their key pad. So that's press one to vote for the resolution, press two to vote against this resolution, or press three to abstain from voting on this resolution.

Thank you.

Thank you ladies and gentlemen, your votes have been added to the direct and proxy votes received by the voting deadline, and the preliminary results of resolution will shortly be shown on the screen.

Thank you. I now declare the poll closed on resolution two and hand back to the chair, Mr James Strong for the rest of the AGM.

James Strong:

Thank you very much Brian. I would now like to move onto resolution three, and that is that Mr Richard Talbot be elected as a director. The text of resolution three is set out in the notice of meeting, and I now would like to invite Mr Talbot to address the meeting.



Richard Talbot:

Shareholders, I was a director of NRMA Insurance in the years before it was floated in 2000 and I now offer myself as a candidate who can give an independence of mind and who owes no allegiance to anyone but always knows the interests he's representing and that's you the shareholders.

I've no doubt that the current boards unfavourable comments about me have caused some shareholders to vote against my nomination. But maintaining a closed shop is not in the interests of this company and for a company's resources to be used to maintain the status quo does not make for good governance.

This board have the temerity to declare that I didn't have the skills and experience to be a director of this company but they reckon they do. So let's look at the results because those results speak for themselves. 2008 the year of the 'unprofit.' When this company was floated in 2000 it had a dominant market share supported by a loyal customer base which guaranteed a very profitable business. Not long after the float the share price was on par with that of QBE. Now QBE's shares are worth seven times more, not to mention the difference in the market capitalisation.

The foray into the British insurance industry was ill timed and we now have to suffer the massive write-downs of that disaster. The disastrous designated smash repairer scheme cost this organisation a sizeable proportion of the customer base. Once these good risks are gone they don't easily come back. This was our flagship insurance company NRMA Insurance.

What I often hear from NRMA Insurance customers is that they've left because it's become too expensive for them. Invariably when I ask these people about their driving and claims history they often proudly tell me they've never had an accident or made a claim in decades of driving or insuring their belongings.

Then we come to the QBE bit; not until this meeting have we begun to hear anything of substance about this proposal. This board wasn't even willing to give you a say on it. They dismissed



the QBE offer without even discussing it with the major retail shareholders who are the backbone of this company along with all those mum and dad shareholders equally important. How many of you here today would prefer to be holding QBE shares instead of IAG shares or have QBE managing the affairs of this company?

All this happened on the watch of the current chairman, yet he and his handpicked mates are asking you to re elect them for another term while they say of me that I don't have their skills or should I say their 'unskills'. I don't come out of the same mould as these directors. I don't belong to the same clubs. I will listen to shareholders and I will listen to customers and I won't be afraid to put a takeover proposal to you because I'm more worried about losing my job than looking after your best interests.

It may sound familiar because it's something that Barack Obama also said during his campaign. And just as he believe in a better future for America, I believe in better days ahead for IAG under new leadership - yes we can.

James Strong:

Matters open for discussion.

If there are no comments, I'll now direct that the poll for resolution three be taken and that attendees register their voting intention by pressing the appropriate number on their keypad: 1 for, 2 against and 3 abstain. Thank you ladies and gentleman. Your votes have been added to the direct and proxy votes received by the voting deadline. A preliminary result for resolution three is now shown on the screen, or will be shortly. We've actually got 50 people out the back with adding machines.

I declare that resolution [unclear], but of course we have to go to the final completion of that count as I mentioned earlier.

Resolution four is that Mr Philip Twyman be elected as a Director. The text of resolution four is set out in the notice of meeting. I would now like to invite Mr Philip Twyman to address the meeting.

Philip Twyman:

Thank you, Mr Chairman. Good afternoon ladies and gentlemen. I would just like to sum up the skills and values that I hope I might



be able to bring to IAG. I spent all my working life in the financial services industry. I have seen booms and I have seen busts. I've learnt how to manage through them all.

I worked in many different insurance companies, both in Australia and overseas, and I've seen inside many more. I've seen just how difficult it is to maintain consistently good results for shareholders and also for customers. Since coming back to Australia four years ago, I've been working as a company director at places like Perpetual, Medibank and IMA, who are the company that ran NRMA and RACQ Insurance.

I was honoured to be invited to join the IAG Board earlier this year. Since doing that, I have become much more closely associated with its markets and its regulators. I also Chair Perpetual's Audit and Risk Committee and I serve on a number of other Audit and Risk Committees. These committees are at the heart of ensuring honest reporting and the skilful management of risk.

Before accepting this appointment, I carefully considered my time commitments and compared that with all the other activities that are listed in my CV. I also discussed it with my fellow directors at IAG. I believe that I have the time and the ability to serve IAG to the very best.

My last full-time executive role, before I became a director, was with the Aviva group in London. Aviva is one of the largest insurance and wealth management companies in the world. During my time there, and also with some predecessor companies, I was variously a finance director, an international director, and I was also chairman of one of the largest fund management companies in Britain.

I've seen inside insurance companies on almost every continent, both as an executive, but also as a non-executive director. The factors that lead to success are nearly always the same. The factors that lead to disappointments are nearly always different.



You might know that during my time at Aviva I was responsible for the CGU and NZI businesses that IAG bought in 2003. They were both sound businesses and had really good potential.

I enjoy working with the IAG team because we share the same beliefs about trust, openness and accountability. Honesty and integrity are the two things that I value most highly, and I always look for them wherever I work.

So, in summary, I believe that I bring to IAG both experience and wisdom to its insurance businesses, and a very strong reinforcement of its values, like the fairness that IAG is known for. I would be most honoured if you reappointed me for a further term to continue my contribution to IAG. Thank you very much.

James Strong:

Does anyone wish to speak to this resolution? It appears not. So that concludes the discussion of resolution four. I now direct that the poll for resolution four be taken and that attendees register their voting intentions by pressing the appropriate number on their keypad: 1 for, 2 against, 3 to abstain.

Thank you ladies and gentleman. Your votes have been added to the direct and proxy votes received by the voting deadline. The preliminary result of resolution four is now shown on the screen. I declare the poll closed on resolution four. Resolution five is to adopt the remuneration report.

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, 2008, be adopted. The full text of the resolution is set out in the Notice of Meeting.

Under the Corporations Act, as I think everyone knows, this vote is advisory only, meaning that the result of the resolution will not bind the directors or the company. The remuneration report is set out on pages 16 to 29 of the company's 2008 Annual Report and provides extensive disclosures of director and executive



remuneration. Anyone who wishes to speak in relation to this resolution can now go to the microphone.

James Strong: Thank you.

Question: (Michael Perry, shareholder) Thank you, Chairman. I have to say I have a number of concerns about the remuneration report, particularly in the area of incentives; not so much in the long term incentive plan, where I see you've now adopted twin hurdles rather than relying entirely on total shareholder return on the relative basis, which is probably a step in the right direction.

I have to say that any sort of good feelings I have about that are more than outweighed by my concerns about the short term incentives. My concern is particularly that you have continued to make what I see as very large so-called incentive payments under the short term incentive team despite three years of declining profits, culminating in last year's loss, falling insurance margins, falling return on equity and earnings per share.

When looking more closely at the short term incentive payments with the help of your staff – I readily acknowledge that they've given me quite a lot of information – I find that many of the reasons for what I see as the very large incentive payments in the short term scheme were made to executives who have now departed, who departed last year or who were scheduled to depart at some time during the current year.

I find that particularly strange. Some of those payments were not far off the same as the entire basic annual salary of those concerned. I have been informed that this is the result of terms of contracts negotiated with those executives. If that's the case Chairman, to my mind that removes them from the role of incentives.

If there is a guarantee, which I understand, that on departure, in the circumstances in which they departed, they're guaranteed a so-called incentive payment, it's not really an incentive; it's a guarantee based upon a previous incentive payment that was



supposably related to an earlier year's performance. To my mind, that's really misusing short term incentives.

It's almost translating them into the role of a golden parachute, which I don't think anybody here would approve. I would really like to ask Chairman, do you have any plans to change the nature of your short term incentive scheme so that it does actually provide an incentive for improved performance and doesn't simply make large payments on the back of declining performance?

Thank you, Chairman.

James Strong:

Thanks, Mr Perry. I would like to acknowledge that there has been some worthwhile discussion between the ASA and the company about this in an effort to clarify it. By way of a general comment, Mr Perry, as you know, trends develop in remuneration. These days, they translate very rapidly because of the fact that a lot of people, because of the remuneration reports, now take outside advice in these areas on remuneration policy.

The original idea of the way in which these things were set up, I presume, was that very senior executives accept and sign up to a contract which acknowledges by both parties that they can be terminated without the normal process which would apply to people who expect only to be terminated in certain circumstances of very clear non-performance.

So where people can be terminated if there simply is a change in management structure or it's seen that we need to restructure and run the company differently, the general approach that has been taken by a lot of companies has been that if you have this right to tell people well I'm sorry but your services are terminated, then you are obliged to give them a notice period and to pay them what they would have expected to have received had they continued in that period, but of course not including a long term incentive which is not relevant to them no longer being in the company.

So, therefore, over a period the practice grew of including STI as what they would normally have received from their performance if



they had still been in the company in the period after their contracts ceased, or after their service ceased but when the contract notice period was still running. I think that's by way of a general background.

As you know, just as a comment, the STI consists of two components. I'm sure you're aware of all this. Part of it is financial and part of it is personal performance. Part of it is paid in cash and part of it is paid in deferred award rights which are only exercisable over a period of three years. So that has another purpose of locking people in.

Coming back to the real thrust of your question; yes, we have been re-looking at this question. For the new contracts that we have written, so far we are looking at not using that same provision. It's a practice that grew up very widely. I think in today's climate it's something that needs to be reconsidered.

Question:

(Mr Joe Nagy, shareholder) Thanks very much, Mr Chairman. I raised this point with you either last year or the year before. We've got a snowball's chance in hell of changing your mind or anyone's mind about incentives. I'll explain that to you in a minute. The point I want to make to you is the point I made to you before.

That is, when you look at your industry, it's inappropriate to have this kind of incentive program where we have this tail. Remember I spoke to you before and I compared this to Woolworths, and you agreed with this. That's the issue. The issue is that people can leave this organisation: you reward growth; they get the numbers on the board; they leave and then...

I'm not going to mention the four letter word, but you know what I mean; S-H and so forth comes aboard and we lose money. They walk off with their bonuses. That's what bothers me. There has got to be some sort of hold back on this. It's not going to happen, because most of the institutions here are starting to do the same thing.



It will set a dangerous precedent for the rest of business, especially the financial institutions business, to have this kind of thing come in. That's what should happen, but it won't happen. The shareholders get screwed every time. Thank you very much.

James Strong:

I think your comments are very relevant in some circumstances: particularly, for example, with some of the amounts that we've seen in the United States, which are obscene; particularly with some people who, when you see the results of it literally falling apart afterwards and having taken very huge payments.

Even though I think everyone knows that we're nowhere near that territory and never will be, there is still this important question of, in the light of what's happened, do people go back and have a look at the way these things are structured? I hope that you accepted my point that there are very senior people in all sorts of companies around Australia who do trade off the right that they can be sacked by a board or a chief executive without having to say this is for this reason or that reason.

In return for that, they get some pay for the period of notice that they get. So what it's more about is making sure that the way in which they're treated is fair and does not, as both you and Mr Perry have said, actually inadvertently or otherwise result in them benefiting from that situation. On the other hand, they shouldn't be penalised if they've accepted this risk, and the risk has gone against them, of having a payout for that period. I think it's a situation that will be looked at closely.

Question:

(Charles Edwards, shareholder) Mr Chairman, you announced a freeze on board salaries a while ago. How long will that last for?

James Strong:

The normal practice with every company is to have a look at both salaries and board fees once a year and to seek external advice about that. One of the problems with this, which I think it's important to acknowledge, is that these things – salaries and so on – do tend to move upwards.



With a board, if you take a stand at a particular time and say well sorry it's not appropriate, then sooner or later you may be caught with a catch-up situation which becomes more offensive from a shareholder's point of view. So what boards try to do is to strike a reasonable balance.

But in occasion like this, where the company has suffered so badly, there wasn't even a debate about it; there should not be a review of the... But that's what the normal process would be: test it against the market once a year, using external advice.

Question:

(Charles Edwards, shareholder) Sorry, what is your answer Mr Chairman? You said, ironically, just after a rise in pay for yourself of 17 per cent, and 10 per cent to the ordinary directors, pursuant to last year's \$750,000 rise in the pool from \$2 million to \$2.75. You raised your salaries and then announced a freeze. How convenient. I think there is even an argument for going back to last year's annual general meeting to set a real precedent that has real teeth.

You haven't answered my question. You have said that there is a freeze on board salaries. I understand your point about yearly reviews. How long will this freeze last? If you are to vacate the Chairmanship, as you've foreshadowed, will any future Chairman be bound by that promise?

James Strong:

First of all, I think you're misusing a statistic. What went up last year was the bounds or the pool...

Question:

(Charles Edwards, shareholder) From \$2 million to \$2.75.

James Strong:

It doesn't mean that that's what was applied.

Question:

(Charles Edwards, shareholder) No, I'm not suggesting that. I said – and it's in the annual report – that your total remuneration went from something like \$600,000 to \$700,000 total. Most directors, slight variation, but averaging \$200,000 to \$220,000 from then until now: 10 per cent. It's a pretty easy calculation. You announced a freeze just an hour or two ago on...



- James Strong: No, I might have announced it an hour or two ago but we examined it earlier this year.
- Question: (Charles Edwards, shareholder) Right. There's a freeze. You have announced today that a freeze on board salaries – ironically, after those rises of 10 and 17 per cent – is to apply. Right, those are the facts. For how long will that freeze last – one year, two years, three years – before you come back, either to the board or ourselves, for a rise in your own salaries and/or a rise in the pool. I understand the difference between the director's pool of \$2.75 million and your individual salaries, whatever they may be. How long will your freeze that you announced last into the future, and will it bind any of your successors as Chairmen in the next one, two or three years? How long?
- James Strong: Well, first of all, they're not salaries. As you know, they're director's fees.
- Question: (Charles Edwards, shareholder) I'm not here to argue minute, dictionary points Mr Chairman. I think my question is pretty clear...
- James Strong: Yes, and I'll answer it if you let me get to it. What I just said, and I must not have made it plain, was that it is normal practice, and will be the practice for this company, to review salaries and director's remuneration once a year. We've already done it this year. We will do it again next year at the middle of next year. It will be up to the Board to decide what is appropriate at that stage.
- Question: (Charles Edwards, shareholder) So the freeze, in effect, could last only 12 months?
- James Strong: It could, or it could last longer; it's up to the Board to decide.
- Question: (Charles Edwards, shareholder) But the review would come within 12 months anyway. It seems to me you're making a virtue out of necessity. The offer is really not much of an offer. Quite frankly, it just doesn't seem much... You say we're announcing a freeze.



There has been a fair bit of sentiment here that the salaries or board fees – call them what you wish, we all know what we're talking about – would probably, given the light of the performance of the company not just this last year but since 2005... I read out some worrying falling metrics from the annual report since 2005.

I think there's every case to even turn the clock back in terms of the Board's salaries. But you've announced... I mean, if you really want to share the pain, you at least get a base salary which is not subject to share market fluctuations. We as shareholders, and thank god I sold most of my shares earlier this year, are fully exposed; we don't get a base rate.

Certainly there is an at risk component with the non-executive in so far as the non-executive directors get some of their fees in terms of shares, which is a good move; I applaud that. Of course, the executive directors get the short or long term share component and perhaps they'll feel a bit of pain on that. But they also get a very generous base salary which the shareholders don't get.

That's the part that doesn't reflect the pain that the shareholders might be suffering. But you've announced a freeze which might only last until the middle of next year when the review for your salaries would have come up anyway. Effectively it's a non-freeze because next year you may not even be Chairman.

You've foreshadowed the possibility of a change of Chairmanship. Even if you are Chairman, in the middle of next year you might have a meeting and say no, we're going to raise our director's fees anyway. So where's the freeze? I don't see it?

James Strong:

Well, it's your freeze. What I announced before is that we had already looked at the director's allowances and we had decided not to increase them this year.

Question:

(Charles Edwards, shareholder) So it only lasts for one year?



James Strong: At this stage it will depend on the market and what the view of the Board is next year; the same as it does to all of the other remuneration in the company.

Question: (Charles Edwards, shareholder) It doesn't sound like a particularly bold freeze. This share market meltdown has been foreshadowed for about a year now. It has only really hit our shores and impacted badly in the last few months. If you're so willing to share the pain of shareholders, which is repeated in a number of areas in some words or another in the annual report, wouldn't it be a bold move at the very least to say a three year freeze and make it really have some teeth? I just think it's basically a fairly fatuous sort of freeze.

James Strong: That's your opinion and you're entitled to it. I might say that everyone who is a shareholder in a company feels the effects. I have certainly got a substantial sum of money invested in this company and I've shared that pain with other shareholders.

Question: (Jack Tillman, shareholder)

This will be my last hoorah here today, I'm sure. I can't go through the remuneration report, Mr Chairman, pages 16 to 29. I just picked up on two things I would like to bring forward, ladies and gentlemen, retail investors. We have a new Managing Director, Mr Michael Wilkins. This is the time for me to strike while the iron is hot and the axe is falling on him.

He's the new Managing Director. What I don't like is when I was reading his Curriculum Vitae he's a non-Executive Director of Maple-Brown Abbott Limited. In all my time of 82 years, I cannot understand how you can wear two hats. I was with a man last week. He said you can't be two pilots in the new Qantas plane. I said no. There can't be two ship captains on the Queen Mary either.

There can't be a time where Mr Wilkins goes down the road, goes down the street, goes down the avenue to Maple-Brown Abbott and says oh yes, I'm going to sit down here on my bum, work for



one or two hours at a board meeting. The big question is – I've asked this before, Mr James Strong – what happens to that salary, fee, remuneration that he gets at Maple-Brown Abbott?

What he should do with it is to tell us in the annual report that he has given it to the Salvation Army or the Smith Family. That's what he should do; not put it in his pocket and be very, very greedy. Also, all that time that he takes – say 12 board meetings, two to four hours of board meetings – that's 48 hours he's away from doing work that we pay him to do as Managing Director of IAG.

It's all unacceptable. It's all inexcusable. It's all immoral. It's all unethical. If he doesn't like that, let him leave the IAG company. I was also reading on page 22 that in six months Mr Wilkins earned nearly \$1.5 million. Well, in 12 months you double that, he would be earning \$3 million. That's more than enough. Even Prime Minister Rudd said that many executives and directors are absolutely too bloody greedy.

\$3 million a year. That's \$60,000 per week. That's more than enough to run this miserably, lousy, rotten company that has gone right down the toilet and right down the other things too. So I'm all against Mr Wilkins getting any more salary than \$3 million a year, \$60,000 per week, and working also for Maple-Brown Abbott. It's immoral and unethical.

James Strong:

Jack, the remuneration paid to individual managers I think is quite clearly set out in the remuneration report. It is very carefully benchmarked against comparable jobs. If we want to get the right person, we have to pay the going rate. That is something which is handled by a specialist group within the board; the remuneration committee.

I think that there is ample explanation of how that is done in the remuneration report. Whether all executive salaries are too high in this country or around the world is another matter which I'm sure a lot of people have views about. The only other thing I



would do in response to your comments is to invite Michael to say a few words about the Maple-Brown situation.

Michael Wilkins:

Thanks James. Mr Tillman, contrary to your views, it's not 12 meetings a year. I attend four board meetings a year which is the normal schedule for Maple-Brown Abbott. I said earlier that I don't believe that that impinges on my capacity to undertake my role in any way, shape or form. I thank you for your advice about what I should do for the fees that come from that. At the moment I prefer to decide where I send my own charitable contributions. I thank you for the suggestion though.

Question:

(Ian Scandrett, shareholder) Chairman, just two points there. First of all, I think you traditionally do a media briefing after the AGM. Is that the case today? Will you be doing that with the CEO and any members of the Board?

James Strong:

Yes.

Question:

(Ian Scandrett, shareholder) Mr Edwards here has brought up a couple of very good points. At that meeting, will you be stressing the word freeze or will you be in fact taking the answer that we've got from you that it is in fact just a suspension, if you wish, for 12 months. I would be more comfortable today if you didn't say a theatrical word such as freeze and just used the word that the Board has decided to, in the case of its own fees, sit tight.

I do invite you again, Mr Chairman, to perhaps go to the 900,000 shareholders of this corporation and perhaps put together a bit of a think tank on where we should be going with fees and take some input from there, both from institutional and small.

James Strong:

Thank you. Any other comments on this motion? I think it has been getting a fair airing during this section and other earlier sections as well. We'll now take the poll on resolution five. I direct that the poll be taken and that attendees register their voting intentions by pressing the appropriate number on their keypad: 1 for, 2 against, 3 abstain.



We'll wait for the input. Thank you ladies and gentleman. Your votes have been added to the direct and proxy votes received by the voting deadline. The preliminary result of resolution five is now shown on the screen or will be shortly. I now declare the poll closed on resolution five. The business of this meeting has now been completed. As I indicated earlier, the result of the polls will be provided to the ASX as soon as they are available.

They will be placed on the company's website and posted at our registered office tomorrow. On behalf of the Board of Directors, I would like to take this opportunity to thank shareholders for coming to the meeting today and for participating in the discussion. I now declare this meeting closed subject to the determination of the results from the polls. Thank you very much.

End of Transcript