

## **IAG beats revenue guidance but profit affected by storms**

Insurance Australia Group Limited (IAG) today announced a net profit after-tax of \$552 million for the full year ended June 2007 (June 2006: \$759 million), and an insurance margin of 11.4% (June 2006: 13.7%). Premium revenue grew by 15% to a record \$7.4 billion, ahead of the targeted 12-14%, on the back of growth in all businesses, in particular Australian Personal Lines and the UK business.

The Group was on track to deliver an improved insurance margin until the final month of the period, when it incurred a \$200 million net loss from the June storms in Australia and the UK, which had a negative 3% impact on the insurance margin.

When compared to the previous year, the reported result also includes a \$47 million increase in amortisation costs on the newly acquired UK businesses and a \$167 million after-tax decrease in investment returns following the Group's decision to de-risk its portfolio by reducing exposure to equities and investing in its core businesses.

IAG CEO, Mr Michael Hawker said, "We took a transformational step in the diversification of our portfolio with our UK acquisitions, which constituted around 16% of the Group's premium revenue in the second half and delivered an \$86 million (pre-tax) diversification benefit. At the same time, we have reinvigorated our domestic franchise. The momentum in our biggest business, Australian Personal Lines, has continued, with GWP in the second half up 4.5% on the first, and 2.6% overall after adjusting for the impact of the NSW Lifetime Care & Support Scheme. That is a clear turnaround from the 3% decline last year.

"The result shows we are successfully executing our plans to improve our domestic business and build new growth platforms overseas. However, the earnings potential created by this momentum was not fully reflected at the reported profit level this year due to the June storms in Australia and the UK."

### **Business segments**

Mr Hawker said all of the Group's businesses grew during the year.

"The momentum we spoke about six months ago in Australian Personal Lines has accelerated. In our direct book, which makes up about 74% of Australian Personal Lines, revenue from the short-tail business was up 4.7% in the second half over the first half. We also achieved our target of 38% of NSW CTP market share of registrations for the year. Margins on the direct book remained healthy at 16.2% as we maintained our cost discipline and benefited from prudent reserving.

“The Australian Commercial business also performed strongly, growing both revenue and profit. However, a fourth consecutive year of falling premiums and significant competitive pressure mean the reported profitability of commercial insurance across the industry has relied on unsustainable levels of prior period reserve releases.

“In the UK, the underwriting cycle took longer than expected to bottom out, but we now believe it is hardening as rate rises are starting to hold and cross-product subsidies are disappearing on the back of the UK flood-related losses.

“Within our combined UK business, the niche bespoke portfolio performed well while the private motor market remained challenging as rate increases took longer to come through than originally anticipated. We also had the severe storm in June. As a result, while GWP was higher than anticipated, the insurance profit was below expectations. The steps we have taken both on rates and expenses are already having an impact and should ensure earnings are in line with our expectations in the medium-term.

“As planned, Equity Insurance Group was cash earnings per share accretive immediately, and is on track to deliver the EBITDA contribution for calendar 2007 announced at the time of acquisition. We have also upgraded our synergies target by close to 14%, from £22 million to £25 million.

“New Zealand grew its business in local currency terms and our Asian business generated higher revenue and profit.

“The Group also increased its fee generating business base and pre-tax profit from these operations increased from \$1 million to \$78 million during the year,” Mr Hawker said.

### **Investments**

While the result has been adversely impacted by a drop in investment returns, Mr Hawker indicated recent volatility in domestic and international markets underscored the soundness of the Group’s strategy to reduce shareholder exposure to equities. “We are confident this will reduce the volatility of our earnings over the long term and deliver greater shareholder value as we grow our insurance businesses,” he said.

### **Balance sheet, capital and dividends**

In light of the Group’s performance, the Board has declared a final fully franked dividend of 16 cents per share to be paid on 8 October 2007 to shareholders registered as at 5 September 2007. This brings the annual dividend for the year to 29.5 cents per ordinary share, consistent with the previous year. The Group has declared it will underwrite the final dividend as an efficient means of providing additional capital to fund planned growth and potential bolt-on acquisitions.

The Group maintained the highest Standard & Poor’s financial strength rating of any Australian-based general insurer for its key wholly-owned insurers. Its very strong capital position was also retained, with a multiple of 1.67-times its Minimum Capital Requirement as at 30 June 2007.

## Outlook

Mr Hawker said the Group was targeting continued strong growth in the current financial year.

“We have reinvigorated the revenue of our Australian Personal Lines business and expect this momentum will continue in the current year, at the same time as we benefit from a full-year’s contribution from the UK business acquired during the past year. As a result, we are targeting GWP or revenue growth for the full year of 10-12%,” Mr Hawker said.

“While we expect operating conditions to remain challenging, we are executing plans to respond to various parts of the cycle. To ensure a more sustainable outcome in terms of a fair price for risk, we’ve started increasing rates in short-tail commercial in Australia and New Zealand and have already put rate rises through in private motor in the UK, which now appear to be holding across the market.

“Our aim is for our return to ordinary shareholders to exceed 1.5-times our weighted average cost of capital, barring any major losses for the year outside our normal allowances.

“We expect dividends in FY08 will remain in line with the current year while we use capital to fund further shareholder accretive acquisitions. We are currently actively pursuing opportunities in China, India and Europe, and we are also well advanced in our plans to increase our ownership in AmAssurance’s non-life business from 30% to 49%.

“We have made significant progress this year in building our international operations, as well as improving the momentum and strength of our domestic businesses. The company remains committed to its ambition of doubling the size of the business over the next five years,” Mr Hawker concluded.

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### About Insurance Australia Group Limited

Insurance Australia Group Limited (IAG) is an international general insurance group, with operations in Australia, New Zealand, the United Kingdom and Asia. Its current businesses underwrite more than \$7.5 billion of premium per annum. It employs more than 16,000 people of which around 11,000 are in Australia. It sells insurance under many leading brands including NRMA Insurance, CGU, SGIO and SGIC (Australia); NZI and State (NZ); Equity Red Star and Hastings Direct (UK); and NZI and Safety (Thailand). For further information please visit [www.iag.com.au](http://www.iag.com.au)

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