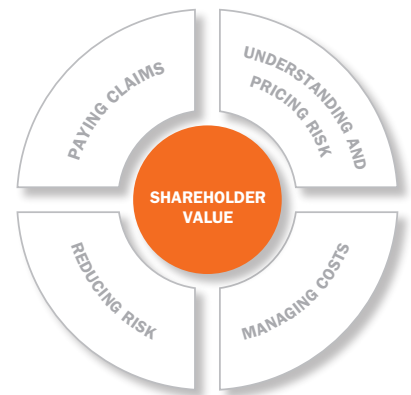


# A SHAREHOLDER'S PERSPECTIVE



James Strong, Chairman

As shown in the stories featured in the opening pages of this report, IAG provides value for our customers by our commitment to paying claims, evaluating and reducing risk and managing our costs. Importantly, that commitment in turn creates consistent, quality returns for shareholders.



## QUALITY PERFORMANCE

It gives me great pleasure to report to you on a period in which your company achieved a record return for shareholders, our customer satisfaction was at an all time high and the performance of our people has continued to improve.

For the year ended 30 June 2005, the Group recorded a net profit attributable to shareholders of \$760 million, compared to \$665 million last year, and an insurance margin of 16.3%. The result reflects the continued momentum in our business, the benefits of our programmes to continually improve operating efficiencies, and better returns on our investments.

The Board has declared a fully franked final dividend of 14.5 cents per ordinary share, to be paid on 17 October 2005. This brings our total dividend for the year to 26.5 cents per ordinary share, a 20.5% increase on the previous year.

This performance places us in the top 20% of companies in the S&P/ASX 100, with a total shareholder return of 157%, when viewed over the five years since listing.

Over the medium term, our aim is to perform within the top quartile and deliver double-digit growth in annual dividends for our shareholders.

## CAPITAL MANAGEMENT

On the back of this performance, we were able to maintain a capital adequacy multiple higher than both our internal target and the level required by APRA. On a Group basis as at 30 June 2005, our APRA minimum capital requirement multiple was 2.00 times compared to our current benchmark multiple of 1.55 times.

Our financial performance and market position enabled us to retain a Standard & Poor's very strong 'AA' insurer financial strength rating for all of the Group's key wholly-owned operating insurance entities. This is the highest rating of any Australian-based financial institution, and a signal to our customers that they can have confidence in our ability to pay claims.

During the year, we also continued our commitment to actively manage and enhance our capital structure. In January, we raised \$550 million of contingent capital through an offer of Reset Exchangeable Securities (RES). The RES provide the Group with an additional layer of certainty if capital is needed at any time in the future as the RES can be converted into regulatory quality capital at our option.

We also introduced several initiatives to reduce the risk in our business including the introduction of new investment classes and manager styles in our shareholders' funds portfolio, and increased our reinsurance protection.

## CORPORATE GOVERNANCE AND BOARD CHANGES

Shareholders, community groups, the legal system and governments have greater expectations than ever before of the behaviours required of our corporations and their leaders. IAG is committed to maintaining very high standards of corporate governance to ensure the future sustainability of the organisation and to create value for our shareholders.

During the past year, we took a number of steps to further strengthen our corporate governance and risk management framework.

In line with the amendments to the Corporations Act 2001, we have provided shareholders with enhanced disclosure of director and executive remuneration; encourage and provided ways to increase participation by shareholders in general meetings; have improved protection for whistleblowers; and provided to the Board a declaration by our CEO and CFO in relation to our financial records and statements. We also adopted a new conflicts of interest policy.

We have two important Board Committees constantly monitoring risk and performance – the Audit Committee and the Risk Management & Compliance Committee.

Of course, corporate governance requires the focus of the entire Board and I would like to take the opportunity to thank my Board colleagues for their continued dedication to superior performance and to transparency.

In particular, I would like to thank the two Directors who retired during the year, Ms Dominique Fisher and Ms Anne Keating, for their active and constructive contribution to the Group over their terms as Non-executive Directors.

I am delighted to welcome two new Board members, Ms Yasmin Allen and Mr Brian Schwartz, who were elected at last year's AGM. Both Directors bring to the Board a wealth of practical skills and experience having held senior positions in Australia and in global markets. Biographical details of all Directors can be found on pages 30 and 31 in this report.

On behalf of the Board, I would also like to express our appreciation to our CEO Michael Hawker and his management team for their dedication. IAG's strong performance is a reflection of their leadership, which has produced the excellent results, achieved by an enthusiastic group of more than 12,000 people.

## FUTURE PRIORITIES

We made significant progress against our strategy and financial goals during the past 12 months. We remain committed to growing our existing businesses in Australia and New Zealand, while expanding the foothold we have established in Asia.

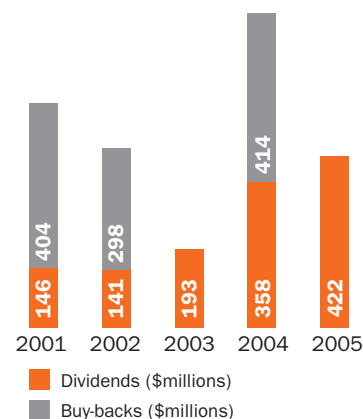
While we anticipate that strong competition in our domestic markets will continue, we remain confident that our heritage of helping customers, our trusted and well-known brands, and our scale of operations position us well for the future.

We will only achieve these goals by operating with the highest of standards in every area of our business.

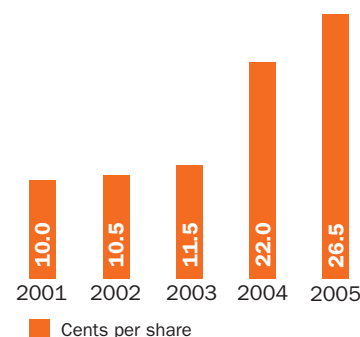
*James Strong*

**James Strong**

Chairman



**Cash returned to ordinary shareholders in respect of the year ended 30 June**



**Dividends per ordinary share in respect of the year ended 30 June**