MEDIA RELEASE

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IAG refines corporate strategy and moves to new operating model

Insurance Group Australia Limited (IAG) Chief Executive Officer Mr Michael Wilkins today outlined the Group's plan to improve its largest businesses in Australia and New Zealand and pursue an efficiency programme expected to deliver $130 million in annual run-rate savings.

Mr Wilkins said while the Group would continue to pursue select growth opportunities in Asia, it would progressively scale back its operations in the United Kingdom to the specialist motor underwriter Equity Red Star.

"It's clear from our recent financial performance we need to do better. Our aim is to create shareholder value by making IAG a more tightly-managed portfolio of high performing, customer-focused and diverse general insurance businesses," Mr Wilkins said.

"We'll do this by simplifying our operating structure, creating end-to-end businesses with autonomy to manage their own brands, customer bases and markets. Putting control closer to the end consumer or intermediary ultimately delivers superior customer experiences and performance.

"We'll also stay focused on the fundamentals of our business in Australia and New Zealand, while continuing to selectively pursue growth opportunities primarily in Asia."

Key elements of the plan include:

- Moving to a simpler model to drive improved performance of the Australian and New Zealand businesses;
- Restructuring the Australian operations and corporate office which is expected to deliver around $130 million in annual pre-tax run rate savings. The implementation cost of the programme is around $60 million pre-tax and will be taken as a restructuring provision in FY08;
- Continuing to pursue select Asian growth opportunities with a focus on Thailand, Malaysia, India and China;
- A focus on profitability and exiting businesses that do not fit our corporate intent or return hurdles; and
- The staged exit of private motor and mass market distribution operations of Hastings/Advantage and Equity Insurance Brokers in the United Kingdom and the exit from our Alba and Diagonal investments. The Group will book a non-cash impairment charge of around $350 million in FY08.

IAG Chairman, Mr James Strong said: "The initiatives announced today by the Chief Executive Officer are the culmination of an extensive business review conducted since Mike Wilkins joined the Group in late November 2007.

"The review both confirms and enhances the Board's view of the fundamental value of the overall business."

FY08 Trading Update and FY09 Outlook[1]

Mr Wilkins said the Group expected to deliver GWP growth of around 6% and an insurance margin at the low end of the 6-8% range for the year ending 30 June 2008, in line with earlier guidance to the market.

The Board is expected to declare a final dividend of 9 cents per share fully franked taking the full year dividend to 22.5 cents per share (June 2007: 29.5 cents per share).

[1] This remains subject to no material movement in foreign exchange rates, no catastrophes or large losses beyond the Group's allowances, and no material changes in credit spreads.

From the financial year 2009, dividends will be assessed around a target payout range of 50-70% of reported cash earnings, and will continue to be fully franked for the foreseeable future.

Mr Wilkins said the Group expected to generate underlying GWP growth of 3-5% for the year ending 30 June 2009, while reported Group GWP is expected to grow around 0-2% due to the Group's change in its UK strategy and the introduction of six-month CTP policies in NSW. The Group's FY09 insurance margin is expected to be above 10%, and now includes corporate expenses and the NSW Insurance Protection Tax, which were previously reported separately and equal to about 1% of the reported margin.

"The changes announced today will involve a short-term financial impact, however we believe these actions are necessary to give us the platform to improve the performance of the business over the medium to longer term," Mr Wilkins said.

"The fundamentals of the business remain strong and we are confident that our actions today will improve shareholder value."

Executive Changes

In line with the simpler operating model, Mr Wilkins has also made some changes to IAG's executive team. The new team includes:

- Chief Financial Officer: Nicholas Hawkins;
- Group Executive, Corporate Office: Leona Murphy;
- Chief Executive Officer, Asia: Justin Breheny;
- Chief Executive Officer, CGU: Duncan West;
- Chief Executive Officer, eVentures: Jacki Johnson;
- Chief Executive Officer, New Zealand: Ian Foy; and
- Chief Executive Officer, United Kingdom: Neil Utley.

Mr Wilkins said he expected to make a formal announcement regarding the appointment of a CEO of Direct Insurance in the near future, following an extensive internal and external executive search. In the interim Mr Gary Dransfield, the current Head of Retail Sales & Service, will continue to act in the role to maintain momentum in the business.

As a result of these changes, George Venardos, Tony Coleman and Jan van der Schalk will be progressively leaving the Group by the end of August 2008. Christine McLoughlin will leave the Group by the end of the year as she completes some key projects.

"I thank the executives leaving IAG for their significant contribution to the Group."

The new structure takes effect from the end of August 2008.

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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, SGIC and Swann (Australia); NZI and State (NZ); Equity Red Star (UK); and NZI and Safety (Thailand). For further information please visit www.iag.com.au

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