

SHARE BUY-BACK

Buy-back Booklet

INSURANCE AUSTRALIA GROUP LIMITED ABN 60 090 739 923

This is an important document. If you have any doubts as to what you should do, please contact your professional adviser.



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Important dates for the Buy-back

Date	Event
Thursday, 6 May 2004	Ex-date*. Shares commence trading on an ex Buy-back basis on this date
Wednesday, 12 May 2004	Record Date. Shares you held on this day are eligible to be sold in the Buy-back**. See Box A on your Tender Form
Monday, 24 May 2004	Buy-back opens
Friday, 18 June 2004	Buy-back closes ("Closing Date"). Tenders must be received by 5.00pm, (Sydney time)
Monday, 21 June 2004	Buy-back Date. Announcement of outcome of tender process including the Buy-back Price
Monday, 28 June 2004	Buy-back proceeds despatched to successful participants



*Shares acquired on ASX on or after this date will not confer an entitlement to participate in the Buy-back.

**Certain shares are excluded from the Buy-back. See section 1.6 for details.

IAG may, in its absolute discretion, withdraw the Invitation or extend the Tender Period by making an announcement to ASX to that effect. The Closing Date and all subsequent dates referred to above and elsewhere in this booklet would change accordingly. IAG also reserves the right, in its absolute discretion, to determine the number of Shares which it will buy back up to the Buy-back Limit. IAG may buy back a lesser number or value of Shares and may choose not to buy back any Shares under the Buy-back.

A number of defined words and expressions are used in this booklet. These defined words and expressions are capitalised. See section 7 for the meaning of these words.

Advisers to IAG

Financial Adviser Macquarie Equity Capital Markets Limited

Legal & Tax Adviser Mallesons Stephen Jaques

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If you have any questions in relation to the Buy-back, please call the IAG Buy-back information line: 1300 666 635 8.30am to 5.30pm Monday to Friday, (Sydney time).

Key details of the Buy-back

Insurance Australia Group Limited (“IAG”) is seeking to buy back around \$350 million of Shares through an off-market tender. The Buy-back is an opportunity for you to offer to sell your Shares by submitting a Tender.

It is your choice whether or not to participate in the Buy-back. Before making your choice you should read all of this booklet.

If you choose NOT to participate in the Buy-back, you do not need to take any action, and the number of Shares you hold will not change as a result of the Buy-back.

If you DO choose to participate in the Buy-back:

- you can choose the price(s) in the tender range of \$4.00 to \$5.00 per Share at which you are willing to sell your Shares (your Tender Price);
- you can choose to tender your Shares as a Final Price Tender. This means you are willing to sell your Shares at the Buy-back Price, whatever IAG determines it to be within the tender range of \$4.00 to \$5.00 per Share;
- if the Buy-back Price is higher than your Tender Price, you will receive the higher Buy-back Price for each Share bought back;
- if the Buy-back Price is less than your Tender Price, IAG will not buy back your Shares. Under no circumstances will your Shares be bought back at a price lower than your Tender Price;
- if your Shares are bought back, you will receive a fully franked dividend as part of the Buy-back Price; and
- you will not have to pay brokerage or appoint a stockbroker to sell your Shares.

To participate in the Buy-back, you need to:

Step 1 Decide how many Shares you wish to sell

The number of Shares you may sell is shown in Box A on your Tender Form which was sent to you with this booklet. If you hold 1,000 Shares or less, you must tender all of your Shares if you wish to participate in the Buy-back. If you hold more than 1,000 Shares you may tender any number of Shares, subject to a minimum of 1,000 Shares (in total) and a maximum of the number shown in Box A on your Tender Form.

Step 2 Decide the price(s) at which you are prepared to sell your Shares and indicate this on your Tender Form

Step 3 Submit your Tender

You must ensure that your completed and signed Tender Form is received by the IAG Share Registry or, if you hold your Shares in CHESS, that your controlling participant (normally your broker) processes your Tender, **by 5.00pm (Sydney time) on the Closing Date**. See section 2 and your Tender Form for further instructions on how to submit your Tender.

Chairman's Letter



Dear shareholder

30 April 2004

On 26 February 2004, Insurance Australia Group Limited ("IAG") announced its intention to conduct a buy-back as part of its capital management strategy.

We chose to offer this opportunity to shareholders in view of the Group's strong capital position arising from improved profitability and the sale of non-core assets. A buy-back provides an efficient means to manage our capital in an active way, and in a manner that also benefits shareholders, while maintaining the Group's longer term growth and stability.

This booklet contains details of the Buy-back and invites you to offer to sell your Shares to IAG. IAG intends to buy back around \$350 million of Shares, subject to a maximum of 100 million Shares. However, IAG may buy back less than 100 million Shares or none at all.

The Buy-back has been designed to ensure that all shareholders who have Shares bought back receive the same price for their Shares. This outcome is achieved through the use of a tender process.

Participation in the Buy-back is entirely voluntary. You can choose to sell up to 100% of your Shares by submitting a Tender, or do nothing and retain your current shareholding.

If you choose to participate, you may tender your Shares at any of the specified prices within the tender range of \$4.00 to \$5.00 per Share, or submit a Final Price Tender and, by doing so, elect to receive the Buy-back Price as determined by IAG under the tender process. Once IAG has received all the Tenders, it will select as the Buy-back Price the lowest price in the tender range that enables it to purchase the number of Shares it determines to buy back.

The IAG Board believes the Buy-back is beneficial for all shareholders:

■ **For shareholders who participate**, the Buy-back provides an opportunity to sell Shares without appointing a stockbroker or paying the usual transaction costs such as brokerage. In addition, as the Buy-back Price comprises a capital component of \$1.78 with the balance being a fully franked dividend, there may be tax advantages for some shareholders relative to a sale of their Shares on ASX. Shareholders should note however, that in certain circumstances, the capital component of the Buy-back Price may, for tax purposes, be deemed to be an amount higher than \$1.78. If this occurs, the fully franked dividend component and the payment received for any Shares bought back will not change; and

■ **For shareholders who decide to retain their Shares**, the Buy-back is likely to be marginally dilutive in the first year and expected to increase IAG's earnings per share over time.

The Buy-back will have different tax consequences for different shareholders, depending on their original purchase price and individual tax situation. See section 4 for general information on the tax implications of the Buy-back for shareholders.

If you choose to participate, you must submit a Tender. The Tender Period will close on Friday, 18 June 2004 at 5.00pm (Sydney time).

Payment will be despatched to successful participants on Monday, 28 June 2004.

I encourage you to read this booklet in its entirety before you decide whether to participate in the Buy-back. If you have any doubts about what to do, you should consult your stockbroker, accountant or other professional adviser. If after reading this booklet you have any questions, please call the IAG Buy-back information line on 1300 666 635.

Yours sincerely


A handwritten signature in black ink that reads "James Strong". The signature is written in a cursive, slightly slanted style.

James Strong
Chairman
Insurance Australia Group Limited

Section 1

IMPORTANT BUY-BACK INFORMATION

This booklet invites you to participate in the Buy-back which is being conducted by way of a tender process. The booklet contains important information about the Buy-back and is provided to enable you to make a decision on whether to participate.



This section answers some of the questions that you may have about the Buy-back. Further details are provided elsewhere in the booklet. You should read this section, and the other sections of the booklet, in their entirety.

1.1 What is a buy-back?

Under a buy-back a company buys its own shares from its shareholders. Any shares bought back are cancelled, with the result that the number of shares on issue is reduced by the number of shares bought back.

1.2 Why is IAG implementing a buy-back?

The Buy-back is being undertaken as part of IAG's capital management strategy designed to maintain a prudent and efficient capital structure.

The Board believes that implementing the Buy-back has benefits for all shareholders:

- For shareholders who participate, the Buy-back provides an opportunity to sell Shares without appointing a stockbroker or paying the usual transaction costs such as brokerage.

In addition, as the Buy-back Price comprises a capital component of \$1.78 with the balance being a fully franked dividend, there may be tax advantages for some shareholders relative to a sale of their Shares on ASX. Shareholders should note however, that in certain circumstances, the capital component of the Buy-back Price may, for tax purposes, be deemed to be an amount higher than \$1.78. If this occurs, the fully franked dividend component and the payment received for any Shares bought back will not change. See section 4 for details; and

- For shareholders who decide to retain their Shares, the Buy-back is likely to be marginally dilutive in the first year and expected to increase IAG's earnings per share over time.

1.3 How many Shares will IAG buy back?


IAG intends to buy back Shares to a value of around \$350 million.

However, IAG can, in its absolute discretion, determine the number of Shares which it will buy back, up to a maximum of 100 million Shares ("Buy-back Limit"). IAG may choose to buy back a lesser number or value of Shares, or may choose not to buy back any Shares.

If the total number of Shares tendered at or below the Buy-back Price and as Final Price Tenders exceeds the number of Shares IAG determines to buy back, then IAG will scale back these Tenders. See section 3 for more details of the way any scale back would operate.

1.4 How is the Buy-back being conducted?

IAG is conducting the Buy-back by way of a tender process. Under the tender process you may offer to sell your Shares to IAG by tendering Shares at a price, or prices, in the tender range of \$4.00 to \$5.00 per Share.



After the Closing Date, IAG will review the number of Shares tendered at each price and will choose the lowest price in the tender range that allows it to purchase the number of Shares it determines to buy back. That price will be the Buy-back Price (see section 1.5). If you tender your Shares at a price above the Buy-back Price, that Tender will be rejected and those Shares will not be bought back. If you tender your Shares at or below the Buy-back Price, or as a Final Price Tender, that Tender will be successful and those Shares will be bought back, subject to any scale back.

In a tender process:

- You have the flexibility to tailor your participation to suit your own individual circumstances;
- You are able to choose:
 - whether to tender your Shares in the Buy-back;
 - how many Shares to tender, unless you hold 1,000 Shares or less, in which case you must tender all of your Shares if you wish to participate. If you hold more than 1,000 Shares you must tender a minimum of 1,000 Shares (in total) but you can tender less than your full entitlement;
 - your Tender Price from within the tender range. If you have more than 1,000 Shares, you may also tender different parcels of Shares at different Tender Prices; and
 - to tender your Shares as a Final Price Tender. This means you are willing to sell your Shares at the Buy-back Price whatever IAG determines it to be;
- If the Buy-back Price is higher than your Tender Price, you will receive the higher Buy-back Price. Under no circumstances will you receive less than your Tender Price for each Share bought back; and
- You do not have to appoint a stockbroker or pay brokerage to sell your Shares in the Buy-back.

1.5 What price will I receive for my Shares?

The Buy-back Price will be determined after the close of the Tender Period and announced on Monday, 21 June 2004.

The Buy-back Price is the price that IAG will pay for each Share bought back and will be the lowest price in the tender range of \$4.00 to \$5.00 per Share that will allow it to purchase the number of Shares it determines to buy back. You will be paid the Buy-back Price for each of your Shares that are bought back, even if your Tender Price is below the Buy-back Price.

The Buy-back Price will not be greater than the Maximum Buy-back Price. See section 4 for an explanation of the Maximum Buy-back Price.

1.6 Am I entitled to participate in the Buy-back?

The number of Shares you are entitled to tender is shown in Box A on your Tender Form. You are entitled to tender Shares which were registered in your name on the Record Date and which, in accordance with the ASTC Settlement Rules, confer an entitlement to participate in the Buy-back. Shares acquired on ASX on or after 6 May 2004 do not confer an entitlement to participate in the Buy-back.

Shareholders with a registered address outside Australia are not eligible to participate and will not be sent a Buy-back booklet or a Tender Form.

Participants in IAG's Allocation Share Plan, Bonus Equity Share Plan, Performance Award Rights Plan or non-executive directors share plan are not eligible to participate in the Buy-back in respect of those Shares. The Trustee of the plans will not participate in the Buy-back in respect of the Shares held by it.

1.7 Do I have to participate in the Buy-back?

No. If you do not want to tender your Shares in the Buy-back, do nothing. If you do nothing, the number of Shares you hold will not change as a result of the Buy-back, although your proportional shareholding in IAG will increase slightly.

1.8 How do I submit a Tender?

See section 2 for details of how to submit a Tender. Detailed instructions are also set out on your Tender Form.

If you have any questions about your Tender Form, please contact the IAG Buy-back information line on 1300 666 635. Otherwise, please contact your professional adviser.

1.9 How long is the Buy-back open?

The Buy-back is open for submission of Tenders from 9.00am (Sydney time) on Monday, 24 May 2004 until 5.00pm (Sydney time) on Friday, 18 June 2004. IAG may, in its absolute discretion, withdraw or extend the Tender Period by making an announcement to ASX to that effect.

1.10 How many Shares can I tender?

The number of Shares you may tender in the Buy-back is shown in Box A on your Tender Form enclosed with this booklet.

If you hold 1,000 Shares or less, and you wish to sell Shares in the Buy-back, you must submit a Tender for all of your Shares at one Tender Price.

If you hold more than 1,000 Shares, you may tender any number of Shares, subject to a minimum of 1,000 Shares (in total) and a maximum of the number of Shares shown in Box A on your Tender Form. You may also tender different parcels of Shares at different Tender Prices. However, you may not tender the same Shares at different Tender Prices.

1.11 What are the prices at which I can tender my Shares?

You may tender Shares at the specified prices in the tender range of \$4.00 to \$5.00 per Share or as a Final Price Tender. The specified prices for the Buy-back are detailed on your Tender Form. If you hold more than 1,000 Shares, you may tender different parcels of Shares at different Tender Prices. See section 2 for further information.

1.12 What is a Final Price Tender?

A Final Price Tender is a Tender that means you are willing to sell your Shares at the Buy-back Price, whatever IAG determines it to be under the tender process. The Buy-back Price will not be less than \$4.00 or more than \$5.00 per Share.

Final Price Tenders are designed to make it easier for shareholders to successfully participate in the Buy-back. Final Price Tenders will only be scaled back if the Buy-back Price is set at the bottom of the tender range, and the total of the Shares tendered at the lowest price in the tender range and as Final Price Tenders, is more than the number of Shares IAG determines to buy back. See section 3 for further information on how any scale back would operate.

If you wish to increase the likelihood that your Shares will be bought back, you may wish to consider submitting a Final Price Tender.

1.13 How has the IAG share price performed?

The IAG share price on ASX at market close on Thursday, 29 April 2004 was \$4.71.

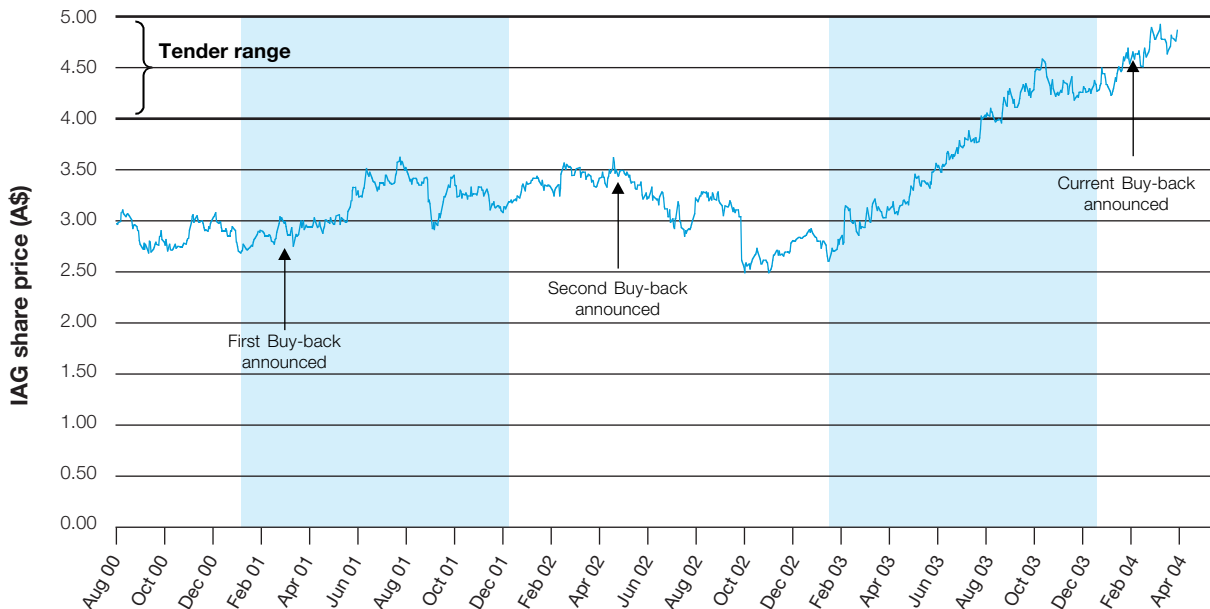
The highest and lowest IAG share price, and the volume weighted average IAG share price, on ASX during each of the preceding four months were as follows:

Month	Low \$	High \$	Volume weighted average price \$
January 2004	4.18	4.46	4.29
February 2004	4.13	4.72	4.38
March 2004	4.45	4.91	4.66
April 2004*	4.60	4.92	4.75

* For the period to 29 April 2004

However, the above are only recent IAG share prices. A graph indicating the daily closing IAG share price over the period since listing on 8 August 2000 to 29 April 2004 is set out below. IAG shares traded ex-dividend on 11 March 2004. A fully franked dividend of 8.0c per ordinary share was paid on 19 April 2004.

The past performance of the IAG share price should not be taken as an indicator of its future performance.



The IAG share price on ASX may be, or may move, higher or lower than the Buy-back Price during the Tender Period. It may also vary significantly in the future. You may be able to sell your Shares on ASX for a price which is higher than the Buy-back Price, although different tax consequences may result.

By making the Invitation and in setting the tender range, IAG is not making any recommendation or giving any advice on the value of your Shares, or whether (or how) you should sell your Shares.

1.14 How will IAG determine successful Tenders?

The process for determining successful Tenders will depend on where the Buy-back Price is set in the tender range.

If IAG sets the Buy-back Price at \$4.00 (bottom of tender range), and if you submit a Tender:

As a Final Price Tender	that Tender will be accepted, but subject to a scale back (if required)
At the Buy-back Price	that Tender will be accepted, but subject to a scale back (if required)
At a price above the Buy-back Price	that Tender will be rejected in full and your Shares will not be bought back

If IAG sets the Buy-back Price above \$4.00, and if you submit a Tender:

As a Final Price Tender	that Tender will be accepted in full
At a price below the Buy-back Price	that Tender will be accepted in full
At the Buy-back Price	that Tender will be accepted, but subject to a scale back (if required)
At a price above the Buy-back Price	that Tender will be rejected in full and your Shares will not be bought back

See section 3 for details of how IAG will determine successful tenders and how any scale back would operate.

1.15 Will all the Shares I tender be bought back?

If you tender Shares at or below the Buy-back Price or as a Final Price Tender, these Shares will be bought back subject to any scale back. If you tender Shares above the Buy-back Price, none of those Shares will be bought back.

The success of each Tender will depend on the Tender Price, the size and price of Tenders lodged by other shareholders and the total number of Shares IAG determines to buy back.

See section 3 for details of how IAG will determine successful tenders and how any scale back would operate.

1.16 Will a Final Price Tender increase the likelihood that my Shares will be bought back?

If you submit a Final Price Tender, you will increase the likelihood that your Shares will be bought back. This is because you are offering to sell your Shares at the Buy-back Price, whatever IAG determines it to be under the tender process. The Buy-back Price will not be less than \$4.00 or more than \$5.00 per Share.

Final Price Tenders will only be scaled back if the Buy-back Price is set at the bottom of the tender range and the total number of Shares tendered at the lowest price in the tender range and as Final Price Tenders is more than the number of Shares IAG determines to buy back. See section 3 for details of the way any scale back would operate.

1.17 When and how will I receive payment for Shares bought back?

IAG will despatch payment for the Shares bought back on Monday, 28 June 2004.

IAG will send you a cheque for the proceeds in Australian dollars, unless you have a direct credit authority recorded on your holding on the IAG share register as at 5.00pm (Sydney time) on the Closing Date. In this case, all proceeds due to you under the Buy-back will be credited to your nominated account on Monday, 28 June 2004.

If you wish to set up a direct credit authority for all payments on your Shares, you can contact the IAG Buy-back information line on 1300 666 635 to obtain a direct credit election form.

Cheques and direct credit confirmations will be sent to your registered address as at the Closing Date.

1.18 What are the tax implications of the Buy-back?

The Buy-back Price will be made up of two components, each of which will have different tax implications for you:

- A capital component of \$1.78; and
- A fully franked dividend equal to the Buy-back Price less \$1.78.

In certain circumstances, the capital component of the Buy-back Price may, for tax purposes, be deemed to be an amount higher than \$1.78. If this occurs, the fully franked dividend component will not change, and the payment received for any Shares bought back will not change.

The tax implications of selling Shares in the Buy-back will not be the same for all shareholders and will depend on your individual circumstances. In addition, the tax implications of participation in the Buy-back differ from those which apply if you sell your Shares on ASX.

See section 4 for general information on the tax implications of participation in the Buy-back.

You should consider seeking professional tax advice before making your decision.

1.19 Why would I tender my Shares rather than sell them on ASX?

For some shareholders, the after tax proceeds of participating in the Buy-back may exceed the after tax proceeds from a sale of those Shares on ASX. The Buy-back will have different tax consequences for different shareholders, depending on their original purchase price(s), acquisition date(s) and individual tax circumstances.

See section 1.18 and section 4 for general information on the tax implications of participation in the Buy-back.

If you sell your Shares through the Buy-back you will not have to pay brokerage.

1.20 Can I withdraw or amend my Tender?

Yes, it is possible to withdraw or amend your Tender prior to the close of the Tender Period. See section 2 for instructions on how to withdraw or amend your Tender and details of when such changes will take effect.

1.21 Can I trade my Shares after submitting a Tender?

Once you have tendered Shares in the Buy-back, you must not sell or offer to sell those Shares before the Buy-back Date unless you withdraw or amend your Tender. In addition, you must not convert the Shares you Tender from an Issuer Sponsored Holding to a CHESS Holding or vice versa or move them between CHESS Holdings (for instance, if you change your HIN (holder identification number) or your controlling participant (normally your broker)).

Unless you withdraw or amend your Tender, you will not be able to successfully deal with Shares that you have tendered until completion of the Buy-back.

If you sell any Shares after you submit a Tender, and at the Buy-back Date you do not hold at least the number of Shares you have tendered, IAG may, in its absolute discretion, reject your Tender or treat your Tender as if you had tendered the number of Shares held by you at the Closing Date (provided you also hold no less than that number of Shares at Record Date). See sections 6.8 and 6.10 for further details.

1.22 Can I transfer my rights to participate in the Buy-back?

No. Your rights to participate in the Buy-back are personal and are not transferable.

Section 2

HOW TO SUBMIT A TENDER

A personalised Tender Form has been sent to you with this booklet. It will either be pink, grey, orange or yellow, depending on the size and type of your shareholding.

If you wish to submit a Tender to offer to sell your Shares in the Buy-back, you should follow the instructions on the following pages for the particular colour Tender Form you have received as well as the detailed instructions on the Tender Form. Please read these instructions carefully.

Type of holding as at Record Date	Size of holding	
	1,000 Shares or less	More than 1,000 Shares
Issuer Sponsored Holding	Pink Tender Form	Yellow Tender Form
CHES Holding	Orange Tender Form	Grey Tender Form

2.1 How do I participate in the Buy-back?



Pink Tender Form

You have an Issuer Sponsored Holding of 1,000 Shares or less

Step 1 Decide if you want to sell all your Shares in the Buy-back

If you wish to participate in the Buy-back, you must tender all of your Shares.

Your Tender Form sets out in Box A the number of Shares you held as at the Record Date.

Step 2 Decide your Tender Price

Indicate the price at which you are willing to sell your Shares (the Tender Price) on your Tender Form.

You must tender all your Shares either at one of the specified prices in the tender range of \$4.00 to \$5.00 per Share or as a Final Price Tender. You cannot split your holding and tender different parcels of your Shares at different Tender Prices.

Step 3 Submit your Tender

Complete and sign your Tender Form and return it in the enclosed reply paid envelope to the IAG Share Registry at:

If sending by mail

Insurance Australia Group Limited
Reply Paid 1663
Melbourne VIC 8060

OR

If hand delivering

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000

You should ensure that your completed and signed Tender Form is received by the IAG Share Registry by 5.00pm (Sydney time) on the Closing Date. You should allow sufficient time for mail collection and delivery when you are returning your Tender Form.



Orange Tender Form

You have a CHESS Holding of 1,000 Shares or less

Step 1 Decide if you want to sell all your Shares in the Buy-back

If you wish to participate in the Buy-back, you must tender all of your Shares.

Your Tender Form sets out in Box A the number of Shares you held as at the Record Date.

Step 2 Decide your Tender Price

Indicate the price at which you are willing to sell your Shares (the Tender Price) on your Tender Form.

You must tender all your Shares either at one of the specified prices in the tender range of \$4.00 to \$5.00 per Share or as a Final Price Tender. You cannot split your holding and tender different parcels of your Shares at different Tender Prices.

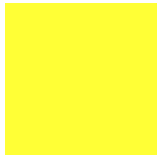
Step 3 Submit your Tender

Contact your controlling participant (normally your broker) and advise them that you wish to tender all your Shares and your Tender Price. The name of the controlling participant who manages your CHESS Holding as at the Record Date is printed on your Tender Form.

You must contact your controlling participant in sufficient time to enable them to process your Tender by 5.00pm (Sydney time) on the Closing Date.

Do not send the Orange Tender Form to the IAG Share Registry, as it cannot process your Tender. Your controlling participant may require your Tender Form.

You may receive written confirmation from CHESS of the Tender made on your holding by your controlling participant. Irrespective of its wording, this confirmation is not an acceptance by IAG of any Tender.



Yellow Tender Form

You have an Issuer
Sponsored Holding of
more than 1,000 Shares

Step 1 Decide how many Shares you wish to sell

You may tender some or all of your Shares, subject to a minimum of 1,000 Shares (in total) and a maximum of the number shown in Box A on your Tender Form.

Step 2 Decide your Tender Price(s)

Indicate the price, or prices, at which you are willing to sell these Shares (the Tender Price(s)) on your Tender Form.

You may tender Shares at one of the specified prices in the tender range of \$4.00 to \$5.00 per Share or as a Final Price Tender. You may also tender different parcels of Shares at different Tender Prices. However, you must not tender the same Shares at different Tender Prices.

For example, if a shareholder held 4,500 Shares at the Record Date and wishes to sell all their Shares they could tender 2,000 Shares at \$5.00, 1,800 at \$4.50 and 700 as a Final Price Tender. The total number of Shares that the shareholder tenders must not be greater than 4,500.

Each parcel of Shares tendered at a different Tender Price is a separate Tender.

Step 3 Submit your Tender(s)

Complete and sign your Tender Form and return it in the enclosed reply paid envelope to the IAG Share Registry at:

If sending by mail

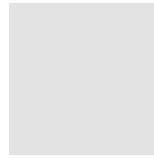
Insurance Australia Group Limited
Reply Paid 1663
Melbourne VIC 8060

OR

If hand delivering

Computershare Investor Services Pty Limited
Level 3
60 Carrington Street
Sydney NSW 2000

You should ensure that your completed and signed Tender Form is received by the IAG Share Registry by 5.00pm (Sydney time) on the Closing Date. You should allow sufficient time for mail collection and delivery when you are returning your Tender Form.



Grey Tender Form

You have a CHESS Holding
of more than 1,000 Shares

Step 1 Decide how many Shares you wish to sell

You may tender some or all of your Shares, subject to a minimum of 1,000 Shares (in total) and a maximum of the number shown in Box A on your Tender Form.

Step 2 Decide your Tender Price(s)

Indicate the price, or prices, at which you are willing to sell these Shares (the Tender Price(s)) on your Tender Form.

You may tender Shares at one of the specified prices in the tender range of \$4.00 to \$5.00 per Share or as a Final Price Tender. You may also tender different parcels of Shares at different Tender Prices. However, you must not tender the same Shares at different Tender Prices.

For example, if a shareholder held 4,500 Shares at the Record Date and wishes to sell all their Shares, they could tender 2,000 Shares at \$5.00, 1,800 at \$4.50 and 700 as a Final Price Tender. The total number of Shares that the shareholder tenders must not be greater than 4,500.

Each parcel of Shares tendered at a different Tender Price is a separate Tender.

Step 3 Submit your Tender(s)

Contact your controlling participant (normally your broker) and advise them how many of your Shares you wish to sell and your Tender Price(s). The name of the controlling participant who manages your CHESS Holding as at the Record Date is printed on your Tender Form.

You must contact your controlling participant in sufficient time to enable them to process your Tender(s) by 5.00pm (Sydney time) on the Closing Date.

Do not send the Grey Tender Form to the IAG Share Registry, as it cannot process your Tender(s). Your controlling participant may require your Tender Form.

You may receive written confirmation from CHESS of the Tender(s) made on your holding by your controlling participant. Irrespective of its wording, this confirmation is not an acceptance by IAG of any Tender.

2.2 Participants (controlling participant)

If you are a Participant (as defined in the ASTC Settlement Rules), you may only process Tenders in accordance with the ASTC Settlement Rules. Tender Forms must be processed by 5.00pm (Sydney time) on the Closing Date.

2.3 What if I received more than one Tender Form?

If you have more than one holding of Shares, you will receive a Tender Form for each separate holding of Shares. If you wish to sell Shares in the Buy-back, you must follow the relevant instructions in section 2.1 for each Tender Form which relates to each separate holding of Shares that you want to sell. Each holding will be treated as a separate shareholding. See section 6.2 for further details.

2.4 How do I withdraw or amend a Tender?

Once you have submitted a Tender, you may only withdraw or amend your Tender by following the procedures set out below.



2.4.1 Issuer Sponsored Holdings – Pink or Yellow Tender Forms

To withdraw or amend a Tender you have submitted, you will need a Withdrawal/Amendment Form. To get a Withdrawal/Amendment Form you can either phone the IAG Buy-back information line on 1300 666 635, or download it from IAG's website at www.iag.com.au/buyback

Withdrawal of Tenders

If you wish to withdraw all of your Tenders, you must tick the "Withdrawal" box on the Withdrawal/Amendment Form, sign the form and send it to the IAG Share Registry at the address provided in section 2.1 so that it is received by 5.00pm (Sydney time) on the Closing Date. You may not withdraw your Tender after this time.

Amendment of Tenders

If you wish to change the terms of all or some of your Tenders or you wish to withdraw some (but not all) of your Tenders, you must tick the "Amendment" box on the Withdrawal/Amendment Form, complete the details of all of your Tenders on that form in accordance with the instructions shown on it, sign it and send it to the IAG Share Registry as specified in section 2.1 so that it is received by 5.00pm (Sydney time) on the Closing Date.

If you amend your Tender(s) by submitting a Withdrawal/Amendment Form, you will be taken to have withdrawn all of your Tenders and replaced them with the Tenders detailed on that form. On the Withdrawal/Amendment Form you will need to complete the details of all of the Tenders you wish to submit as if you had not previously submitted them.

Withdrawals/amendments made in accordance with these procedures will take effect once they have been processed by the IAG Share Registry. You can contact the IAG Buy-back information line on 1300 666 635 to find out if your withdrawal/amendment has been successfully processed.

You should not sell any of the Shares in respect of which you have submitted a Tender until you have confirmed that your withdrawal/amendment has been successfully processed. If you sell any Shares after you submit a Tender, and at the Buy-back Date you do not hold at least the number of Shares you have tendered, IAG may, in its absolute discretion, reject your Tender(s) or treat your Tender(s) as if you had tendered the number of Shares held by you at the Closing Date (provided you also held no less than that number of Shares at the Record Date). See sections 6.8 and 6.10 for further details.



2.4.2 CHESS Holdings – Orange or Grey Tender Forms

If you have a CHESS Holding, you will need to instruct your controlling participant in sufficient time for them to process your withdrawal/amendment by 5.00pm (Sydney time) on the Closing Date.

Do not send a Withdrawal/Amendment Form to the IAG Share Registry, as it cannot process this form. Your controlling participant may require the Withdrawal/Amendment Form.

The effect of your controlling participant withdrawing or amending one or more of your Tenders will be to withdraw those Tenders, and in the case of an amendment, to replace the previous Tenders with new Tenders.

A withdrawal or amendment made by a controlling participant will take effect in accordance with CHESS procedures.

If you are a CHESS Holder, you may receive written confirmation from CHESS of the withdrawals/amendments made on your holding by your controlling participant. Irrespective of its wording, this confirmation is not an acceptance by IAG of any Tender withdrawals/amendments.

Section 3

HOW IAG WILL DETERMINE SUCCESSFUL TENDERS

3.1 How will IAG determine successful Tenders?

Shares tendered at a price above the Buy-back Price will not be bought back. Shares tendered at or below the Buy-back Price, or as a Final Price Tender, will be bought back subject to any scale back.

3.2 When will a scale back be implemented?

A scale back will apply if the total number of Shares tendered at or below the Buy-back Price and as Final Price Tenders is more than the total number of Shares IAG determines to buy back.

3.3 How will the scale back work?

The scale back will operate in the following way:

3.3.1 Buy-back Price set at the bottom of the tender range:

- Tenders above the Buy-back Price will be rejected in full;
- Final Price Tenders and Tenders at the Buy-back Price will be accepted, but subject to a scale back (if required). The scale back will operate as follows:
 - the first 1,000 Shares tendered by each shareholder will be bought back, subject to section 3.3.3;
 - Shares tendered by each shareholder in excess of 1,000 Shares will be scaled back on a pro-rata basis; and
 - any shareholder who tenders all of their Shares at the Buy-back Price and/or as a Final Price Tender, and who would be left with a Small Holding as a result of the scale back will have all of their Shares bought back. See section 3.4 for what represents a Small Holding.

3.3.2 Buy-back Price set above the bottom of the tender range:

- Tenders above the Buy-back Price will be rejected in full;
- Tenders below the Buy-back Price will be accepted in full;
- Final Price Tenders will be accepted in full;
- Tenders at the Buy-back Price will be accepted, but subject to a scale back (if required). The scale back will operate as follows:
 - the first 1,000 Shares tendered by each shareholder will be bought back, subject to section 3.3.3;
 - Shares tendered by each shareholder in excess of 1,000 shares will be scaled back on a pro-rata basis; and
 - any shareholder who tenders all of their Shares at the Buy-back Price, below the Buy-back Price and/or as a Final Price Tender, and who would be left with a Small Holding as a result of the scale back will have all of their Shares bought back. See section 3.4 for what represents a Small Holding.



3.3.3 Other scale back adjustments

If by applying the scale back, IAG would exceed the number of Shares that it determines to buy back, then IAG may buy back less than the first 1,000 Shares from each of those shareholders.

3.3.4 Fractions

In calculating the pro-rata number of Shares to be bought back, fractions of Shares will be rounded downwards.

3.4 What is a Small Holding?

Small Holding means 500 Shares or less. If, by ensuring no shareholder is left with a Small Holding as a result of the scale back, IAG would exceed the number of Shares that it determines to buy back, then IAG may determine that a Small Holding is less than 500 Shares.

3.5 How will a scale back affect my Tender?

IAG will announce details of any scale back on Monday, 21 June 2004.

Set out below are some examples of how the scale back would operate. These examples are illustrative only and should not be relied upon as an indication of the Buy-back Price or the extent of any scale back required.

As an illustration, assume seven shareholders tender Shares into the Buy-back as shown in the table below. Two alternate scenarios are examined. Scenario 1 assumes the Buy-back Price is set at the bottom of the tender range, i.e. \$4.00, and Scenario 2 assumes the Buy-back Price is set at \$4.50. Both scenarios assume a 20% scale back (i.e. 80% of Shares are bought back) and that a Small Holding is 500 Shares.

	Total holding of Shares	Shares tendered	Tender Price	Scenario 1 Buy-back Price \$4.00	Scenario 2 Buy-back Price \$4.50
Shareholder 1	500	500	Final Price	500 Shares bought back	500 Shares bought back
Shareholder 2	10,000	4,000	Final Price	3,400 Shares bought back	4,000 Shares bought back
Shareholder 3	1,500	1,500	Final Price	1,500 Shares bought back	1,500 Shares bought back
Shareholder 4	2,000	1,000	Final Price	1,000 Shares bought back	1,000 Shares bought back
		1,000	\$4.50	No Shares bought back	1,000 Shares bought back
Shareholder 5	1,000	1,000	\$4.60	No Shares bought back	No Shares bought back
Shareholder 6	2,500	1,500	\$4.50	No Shares bought back	1,400 Shares bought back
		1,000	\$4.80	No Shares bought back	No Shares bought back
Shareholder 7	9,000	1,000	\$4.00	1,000 Shares bought back	1,000 Shares bought back
		2,000	\$4.50	No Shares bought back	1,800 Shares bought back
		3,000	\$5.00	No Shares bought back	No Shares bought back

Explanation of Scenario 1

Buy-back Price set at \$4.00 (bottom of tender range)

Explanation of Scenario 2

Buy-back Price set at \$4.50 (above bottom of tender range)

Shareholder 1 tendered a total of 500 Shares at Final Price. The Tender will be successful and all 500 Shares will be bought back. No scale back applies as the first 1,000 Shares tendered will be accepted in full. Shareholder 1 will hold no Shares after completion of the Buy-back.

Shareholder 2 tendered a total of 4,000 Shares at Final Price. The Tender will be successful and the first 1,000 Shares tendered will be bought back in full. Shares tendered in excess of 1,000 Shares (i.e, 3,000 Shares), will be subject to the 20% scale back. As a result, a total of 3,400 Shares will be bought back. Shareholder 2 will hold 6,600 Shares after completion of the Buy-back.

Shareholder 3 tendered a total of 1,500 Shares at Final Price. The Tender at Final Price will be successful and is not scaled back because the first 1,000 Shares tendered will be accepted in full. The next 500 Shares tendered will be accepted in full because if a scale back were to apply, Shareholder 3 would be left with a Small Holding. Shareholder 3 will hold no Shares after completion of the Buy-back.

Shareholder 4 tendered a total of 2,000 Shares at two different prices: 1,000 Shares at Final Price and 1,000 Shares at \$4.50. The Tender at Final Price will be successful and is not scaled back because the first 1,000 Shares tendered are accepted in full. The Tender at \$4.50 will not be successful as the Tender Price is above the Buy-back Price. Shareholder 4 will hold 1,000 Shares after completion of the Buy-back.

Shareholder 5 tendered 1,000 Shares at \$4.60. The Tender will not be successful as the Tender Price is above the Buy-back Price. Shareholder 5 will hold 1,000 Shares after completion of the Buy-back.

Shareholder 6 tendered a total of 2,500 Shares at two different prices: 1,500 Shares at \$4.50 and 1,000 Shares at \$4.80. Neither of these Tenders will be successful as, in each case, the Tender Price is above the Buy-back Price. Shareholder 6 will hold 2,500 Shares after completion of the Buy-back.

Shareholder 7 tendered a total of 6,000 Shares at three different prices: 1,000 Shares at \$4.00, 2,000 Shares at \$4.50 and 3,000 Shares at \$5.00. The Tender at \$4.00 will be successful and all 1,000 Shares will be bought back as the first 1,000 Shares tendered are accepted in full. The Tender at \$4.50 will not be successful because the Tender Price is above the Buy-back Price. The Tender at \$5.00 will not be successful because the Tender Price is above the Buy-back Price. Shareholder 7 will hold 8,000 Shares after completion of the Buy-back.

Shareholder 1 tendered a total of 500 Shares at Final Price. The Tender will be successful and is not scaled back because it is a Final Price Tender and the Buy-back Price has been set above the bottom of the tender range. Shareholder 1 will hold no Shares after completion of the Buy-back.

Shareholder 2 tendered a total of 4,000 Shares at Final Price. The Tender will be successful and is not scaled back because it is a Final Price Tender and the Buy-back Price has been set above the bottom of the tender range. Shareholder 2 will hold 6,000 Shares after completion of the Buy-back.

Shareholder 3 tendered a total of 1,500 Shares at Final Price. The Tender will be successful and is not scaled back because it is a Final Price Tender and the Buy-back Price has been set above the bottom of the tender range. Shareholder 3 will hold no Shares after completion of the Buy-back.

Shareholder 4 tendered a total of 2,000 Shares at two different prices: 1,000 Shares at Final Price and 1,000 Shares at the Buy-back Price of \$4.50. The Tender at Final Price will be successful and is not scaled back because it is a Final Price Tender and the Buy-back Price has been set above the bottom of the tender range. The Tender at \$4.50 will be successful and all 1,000 Shares will be bought back, because the first 1,000 Shares tendered at the Buy-back Price are accepted in full. Shareholder 4 will hold no Shares after completion of the Buy-back.

Shareholder 5 tendered 1,000 Shares at \$4.60. The Tender will not be successful as the Tender Price is above the Buy-back Price. Shareholder 5 will hold 1,000 Shares after completion of the Buy-back.

Shareholder 6 tendered a total of 2,500 Shares at two different prices: 1,500 Shares at \$4.50 and 1,000 Shares at \$4.80. The Tender at \$4.50 will be successful but only 1,400 Shares will be bought back. The first 1,000 Shares will be accepted in full and the Shares tendered in excess of 1,000 Shares (i.e, 500 Shares) will be subject to the 20% scale back. The Tender at \$4.80 will not be successful because the Tender Price is above the Buy-back Price. Shareholder 6 will hold 1,100 Shares after completion of the Buy-back.

Shareholder 7 tendered a total of 6,000 Shares at three different prices: 1,000 Shares at \$4.00, 2,000 Shares at \$4.50, and 3,000 Shares at \$5.00. The Tender at \$4.00 will be successful and all 1,000 Shares will be bought back as the Tender Price is below the Buy-back Price. The Tender at \$4.50 will be successful but only 1,800 Shares will be bought back. The first 1,000 Shares will be accepted in full and the Shares tendered in excess of 1,000 Shares (i.e, 1,000 Shares) will be subject to the 20% scale back. The Tender at \$5.00 will not be successful because the Tender Price is above the Buy-back Price. Shareholder 7 will hold 6,200 Shares after completion of the Buy-back.

Section 4

AUSTRALIAN TAX IMPLICATIONS FOR SHAREHOLDERS

The following discussion is intended only as a general summary of the Australian tax implications of participating in the Buy-back.

4.1 General

The following comments:

- are a general guide to the Australian taxation implications of selling your Shares in the Buy-back;
- may not apply to you if you buy and sell Shares in the ordinary course of a business you carry on (for example, if you are a share trader); and
- are based on the law as enacted at the date of this booklet.

As the tax consequences of selling your Shares in the Buy-back will depend upon your particular circumstances you should seek your own tax advice in relation to the tax consequences of selling your Shares in the Buy-back.

4.2 Draft taxation determination TD2004/D1

The ATO has recently released draft taxation determination TD2004/D1. A draft taxation determination represents the preliminary, though considered, views of the ATO. It is not a ruling and cannot be relied on by taxpayers. TD2004/D1 outlines a formula for determining the “market value” of a share sold in an off-market buy-back for the purposes of the Australian income tax legislation. The ATO indicates that the market value at the time of the Buy-back should be determined as the volume weighted average closing price (VWACP) of the company’s shares on ASX over the last five trading days before the first announcement of the Buy-back adjusted for any change in the S&P/ASX 200 index from the commencement of trading on the first announcement date to the close of trading on the day the Buy-back closes (expected to be 18 June 2004).

In circumstances where the market value as determined under TD2004/D1 is greater than the Buy-back Price as determined by IAG, the excess will be added to the capital component of the Buy-back Price for tax purposes. However, the payment you receive for Shares bought back will not change. Further details are contained on the following pages.

In circumstances where the purchase price in a buy-back is greater than the market value as determined under TD2004/D1, the excess will be treated as an unfranked dividend for tax purposes. However, in this Buy-back, the Buy-back Price will not be greater than the Maximum Buy-back Price. The method for determining the Maximum Buy-back Price is based on the formula provided by the ATO in TD2004/D1 for calculating the market value of a share sold in an off-market buy-back. IAG has received confirmation from the ATO that an appropriate method for determining the market value and therefore the Maximum Buy-back Price is:

- $$\frac{\$4.51 \times \text{closing level of S\&P/ASX 200 index on the Closing Date}}{3331.6}$$

where 3331.6 was the opening level of the S&P/ASX 200 index on 26 February 2004; or

- such other number as determined in accordance with discussions between the ATO and IAG.

The ATO may agree to vary the method of determining the Maximum Buy-back Price in circumstances where the calculation set out above is no longer appropriate or to reflect particular circumstances arising during the Tender Period or matters particular to IAG.

4.3 Australian resident individual shareholder

4.3.1 Tax implications of receiving a fully franked dividend

If you are an Australian resident individual who sells Shares in the Buy-back, you will be deemed to have received a fully franked dividend equal to the difference between \$1.78 and the Buy-back Price for each Share bought back. You will generally be required to include this dividend and the franking credit attached to that dividend in your assessable income for the income year in which you receive payment for any Shares you sell in the Buy-back. See section 4.7 for when you may be required to include the dividend and the franking credit attached to the dividend in your assessable income.

Subject to the comments below regarding “qualified persons” (see section 4.8), you will generally also be entitled to a tax offset, equal to the franking credit, against the income tax payable by you. If the amount of the franking credit/tax offset exceeds the income tax payable by you, you should receive a refund of the excess franking credits. To claim a refund of excess franking credits, you will need to lodge an income tax return for the income year in which you include the franking credits in your assessable income, even if your taxable income for that income year is below the threshold for paying tax.

4.3.2 Tax implications of receiving a capital return

For capital gains tax purposes, participating shareholders will be taken to have disposed of the Shares bought back by IAG. Any capital gain is included in the calculation of your taxable income. If a capital loss is realised, it can be offset against capital gains you realise in the same income year or in later income years. Assuming the Buy-back Date is 21 June 2004, you will need to include any capital gain you make on the disposal of your Shares (or offset any capital loss you realise against capital gains you make) in calculating your 2003/2004 taxable income.

Calculating a capital gain or loss

If you sell your Shares in the Buy-back, you will be taken to have received \$1.78 plus the amount (if any) by which the Maximum Buy-back Price exceeds the Buy-back Price as capital proceeds for the disposal of each Share.

A capital gain or loss is calculated as the difference between those proceeds considered to have been received on the disposal of the Shares and the cost base of the Shares (or reduced cost base if there is a capital loss). A capital loss will arise to the extent that such proceeds for disposal of each Share are less than the cost base (or reduced cost base) for that Share. A capital gain will arise to the extent that such proceeds for disposal of your Shares are greater than the cost base for those Shares.

For the purposes of calculating any capital gain or capital loss on a disposal of Shares you acquired as a result of the Demutualisation, you will be taken to have a cost base for each Share of \$1.78.

If you did not acquire your Shares as a result of the Demutualisation (for example, Shares you bought on ASX), you will generally have a cost base for each Share equal to the acquisition cost of the Share plus any incidental costs of acquisition and disposal of the Share.

Discount capital gains

If you have held your Shares for at least 12 months as at the Buy-back Date, you will be eligible for the capital gains tax discount on any capital gain you derive. The effect of the discount is that you only pay tax on half of any net capital gain you make (after deducting any capital losses).



4.4 Australian complying superannuation fund shareholder

4.4.1 Tax implications of receiving a fully franked dividend

If you are an Australian complying superannuation fund who sells Shares in the Buy-back, you will be deemed to have received a fully franked dividend equal to the difference between \$1.78 and the Buy-back Price for each Share which is bought back. You will generally be required to include this dividend and the franking credit attached to that dividend in your assessable income for the income year in which you receive payment for any Shares bought back. See section 4.7 for when you may be required to include the dividend and the franking credit attached to the dividend in your assessable income.

Subject to the comments below regarding “qualified persons” (see section 4.8), you will generally be entitled to a tax offset, equal to the franking credit, against the income tax payable by you. If the amount of the franking credit/tax offset exceeds the income tax payable by you, you may be entitled to a refund of the excess franking credits.

4.4.2 Tax implications of receiving a capital return

If you are an Australian complying superannuation fund and hold your Shares on capital account, you will be deemed to have disposed of those Shares bought back by IAG for capital gains tax purposes. Assuming the Buy-back Date is 21 June 2004, you will need to include any capital gain you make on the disposal of your Shares (or offset any capital loss you realise against capital gains you make) in calculating your 2003/2004 taxable income.

Calculating a capital gain or loss

If you sell your Shares in the Buy-back, you will be taken to have received \$1.78 plus the amount (if any) by which the Maximum Buy-back Price exceeds the Buy-back Price as capital proceeds for the disposal of each Share.

A capital gain or loss is calculated as the difference between those proceeds considered to have been received on the disposal of the Shares and the cost base of the Shares (or reduced cost base if there is a capital loss). A capital loss will arise to the extent that such proceeds for disposal of each Share are less than the cost base (or reduced cost base) for that Share. A capital gain will arise to the extent that such proceeds for disposal of your Shares are greater than the cost base for those Shares.

For the purposes of calculating any capital gain or capital loss on a disposal of Shares you acquired as a result of the Demutualisation, you will be taken to have a cost base for each Share of \$1.78.

If you did not acquire your Shares as a result of the Demutualisation (for example, Shares you bought on ASX), you will generally have a cost base for each Share equal to the acquisition cost of the Share plus any incidental costs of acquisition and disposal of the Share.

Discount capital gains

If you have held your Shares for at least 12 months as at the Buy-back Date, you will be eligible for the capital gains tax discount on any capital gain you derive. The effect of the discount is that you only pay tax on two-thirds of any net capital gain you make (after deducting capital losses).

4.5 Australian resident corporate shareholder

4.5.1 Tax implications of receiving a fully franked dividend

If you are an Australian resident company (or an entity taxed as if it were a company) who sells Shares in the Buy-back, you will be deemed to have received a fully franked dividend equal to the difference between \$1.78 and the Buy-back Price for each Share bought back. You will generally be required to include this dividend and the franking credit attached in your assessable income for the income year in which you receive payment for any Shares bought back. See section 4.7 for when you may be required to include the dividend and the franking credit attached to the dividend in your assessable income.

Subject to the comments below regarding “qualified persons” (see section 4.8), you will generally also be entitled to a tax offset equal to the franking credit in respect of the dividend. As the dividend will be fully franked, you will also be required to credit your franking account for the amount of the franking credit on the dividend.

4.5.2 Tax implications of receiving a capital return

The Buy-back also constitutes a disposal by you of the Shares for capital gains tax purposes. A capital gain or loss is calculated as the difference between the proceeds received on the disposal of the Shares and the cost base of the Shares (or reduced cost base if there is a capital loss). Assuming the Buy-back Date is 21 June 2004, you will need to include any capital gain you make on the disposal of your Shares (or offset any capital loss you realise against capital gains you make) in calculating your 2003/2004 taxable income.

Calculating a capital gain or loss

The treatment of capital losses incurred by a corporate shareholder participating in an off-market buy-back has recently changed following the removal of the intercorporate dividend rebate for companies and the introduction of tax offsets for franking credits received by corporate, as well as individual, shareholders.

If you sell your Shares in the Buy-back, you will be taken to have received \$1.78, plus the amount (if any) by which the Maximum Buy-back Price exceeds the Buy-back Price, as capital proceeds for the disposal of each Share. Previously, if you were a corporate shareholder that was entitled to the dividend rebate, and such capital proceeds would result in you making a capital loss, the legislation operated such that you did not incur a capital loss.

Under the law as currently enacted, the capital gain or loss would be calculated as the difference between the proceeds received on the disposal of each Share (\$1.78 plus the amounts (if any) by which the Maximum Buy-back Price exceeds the Buy-back Price) and the cost base (or reduced cost base) of the Share (referred to below).


You should be aware that it is possible that the law could be amended to return to a position where there is an adjustment to the capital proceeds taken to be received by a company under an off-market buy-back where the buy-back price includes a franked dividend component. If you are a corporate shareholder selling your Shares in the Buy-back, you should seek your own tax advice in relation to the status of the law in this regard.

For the purposes of calculating any capital gain or capital loss on a disposal of Shares you acquired as a result of the Demutualisation, you will be taken to have a cost base for each Share of \$1.78.

If you did not acquire your Shares as a result of the Demutualisation (for example, Shares you bought on ASX) you will generally have a cost base for each Share equal to the acquisition cost of the Share plus any incidental costs of acquisition and disposal of the Share.

4.6 Non-resident shareholder

If you are not an Australian resident, you will be deemed to have received a fully franked dividend equal to the difference between \$1.78 and the Buy-back Price for each Share bought back, but you will not be required to include the amount of the dividend in your Australian assessable income. The dividend will not be subject to Australian dividend withholding tax.



Although the Buy-back of Shares by IAG will constitute a disposal of your Shares by you, you will not make any capital gain or capital loss for Australian taxation purposes unless you, together with your associates, have held at least 10% of the value of the issued Shares of IAG at any time during the five years up to the Buy-back Date.

4.7 When is a dividend included in assessable income?

If you account for income on a cash receipts basis, irrespective of the Buy-back Date, you will generally need to include the dividend component of the Buy-back Price and the franking credit attached in your assessable income in the income year in which you receive payment for any Shares you sell in the Buy-back. For example, if you receive payment on 28 June 2004, you will need to include the dividend in calculating your 2003/2004 taxable income.

If you account for income on an earnings or accruals (rather than a cash receipts) basis, you will need to include the dividend and, any franking credit attached to the dividends in your assessable income for the income year in which the Buy-back Date occurs. For example, if the Buy-back Date is 21 June 2004, you will need to include the dividend (and, if relevant, the franking credit attached to the dividend) in calculating your 2003/2004 taxable income, even if you receive payment for your Shares after 30 June 2004. You should seek your own tax advice if you are uncertain as to what income year you should include dividends (and franking credits) in your assessable income.

4.8 Franking credits/rebates only available to “qualified persons”

The Australian tax legislation contains rules that require a shareholder to be a “qualified person” in respect of a dividend paid on shares before the shareholder is entitled to the benefit of the tax rebates which flow from receiving franked dividends. You will be a “qualified person” in respect of your Shares if you have held your Shares at risk for at least 45 days (excluding the days of acquisition and disposal) (the “45 day rule”) within a period beginning on the date those Shares were acquired and ending 45 days after the Shares became ex-dividend.

Broadly, in calculating the period in which you have held your Shares at risk, disposals of Shares will be accounted for on a “Last-in First-out” basis, so that you will be deemed to have disposed of your most recently acquired Shares for the purposes of applying the 45 day rule.

If you purchase Shares in IAG on or before 6 May 2004, you will be a “qualified person” in respect of the dividend you will be deemed to have received if you sell your Shares in the Buy-back. This assumes that:

- the Buy-back Date is 21 June 2004;
- you have not entered into any other positions regarding your Shares (for example, selling a call option regarding your Shares); and
- you are not under an obligation to make a related payment in respect of the dividend you will receive.

You will also be a “qualified person” if you have previously made an election with the Commissioner of Taxation to have a franking rebate ceiling applied to you.

On this basis, shareholders who acquired their Shares on or before 6 May 2004 will be “qualified persons”. If you are uncertain as to how the “qualified person” rules might apply to your circumstances, we recommend that you seek your own tax advice.

4.9 Goods and Services Tax (“GST”)

Under the GST legislation, GST will not be payable on the transfer of Shares in the Buy-back. The transfer of Shares will constitute a “financial supply” which is an input-taxed supply for the purposes of the GST legislation.

4.10 Examples

4.10.1 Sale of your Shares through the Buy-back

Set out in the tables on the following pages are examples of the after tax value you may derive per Share if you sell your Shares in the Buy-back, assuming alternative cost bases of Shares of \$1.78 and \$3.00. It is important to understand that the tables are examples only and are based on a number of assumptions (as indicated).

Table 1 assumes the Buy-back Price is \$4.50 and Table 2 assumes the Buy-back Price is \$4.00.

In both examples the Maximum Buy-back Price is assumed to be \$4.60. The Maximum Buy-back Price will depend on the S&P/ASX 200 index at the Closing Date. See section 4.2 for an explanation of the Maximum Buy-back Price.

Table 1 Example tax calculations of participating in the Buy-back – Australian resident individual shareholders and complying superannuation funds (based on an illustrative Buy-back Price of \$4.50):

Tax payable	Your income \$6,001 – \$21,600		Your income \$21,601 – \$52,000		Your income \$52,001 – \$62,500		Your income \$62,501+		Complying superannuation fund	
	18.5% marginal tax rate		31.5% marginal tax rate		43.5% marginal tax rate		48.5% marginal tax rate		15% tax rate	
	A\$		A\$		A\$		A\$		A\$	
Assumed cost base	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00
Income tax consequences										
Assumed fully franked dividend	2.72	2.72	2.72	2.72	2.72	2.72	2.72	2.72	2.72	2.72
Add: gross up for franking credits	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17	1.17
Assessable income	3.89	3.89	3.89	3.89	3.89	3.89	3.89	3.89	3.89	3.89
Less: tax on that assessable income	0.72	0.72	1.23	1.23	1.69	1.69	1.89	1.89	0.58	0.58
After tax dividend proceeds plus franking credits	3.17	3.17	2.66	2.66	2.20	2.20	2.00	2.00	3.31	3.31
Capital gains tax consequences										
Capital component of the Buy-back Price	1.78	1.78	1.78	1.78	1.78	1.78	1.78	1.78	1.78	1.78
Add: adjustment for excess of Maximum Buy-back Price	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Less: assumed cost base	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00
Nominal capital gain/(loss) on disposal	0.10	(1.12)	0.10	(1.12)	0.10	(1.12)	0.10	(1.12)	0.10	(1.12)
Discount capital gain/(loss)	0.05	(0.56)	0.05	(0.56)	0.05	(0.56)	0.05	(0.56)	0.07	(0.75)
Tax impact of capital loss/(gain)	(0.01)	0.10	(0.02)	0.18	(0.02)	0.24	(0.02)	0.27	(0.01)	0.11
After tax proceeds	1.77	1.88	1.76	1.96	1.76	2.02	1.76	2.05	1.77	1.89
Total after tax proceeds	4.94	5.05	4.42	4.62	3.96	4.22	3.76	4.05	5.08	5.20

See Notes for Tables 1 & 2 on next page.

Table 2 Example tax calculations of participating in the Buy-back – Australian resident individual shareholders and complying superannuation funds (based on an illustrative Buy-back Price of \$4.00):

Tax payable	Your income \$6,001 – \$21,600		Your income \$21,601 – \$52,000		Your income \$52,001 – \$62,500		Your income \$62,501+		Complying superannuation fund	
	18.5% marginal tax rate		31.5% marginal tax rate		43.5% marginal tax rate		48.5% marginal tax rate		15% tax rate	
	A\$		A\$		A\$		A\$		A\$	
Assumed cost base	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00
Income tax consequences										
Assumed fully franked dividend	2.22	2.22	2.22	2.22	2.22	2.22	2.22	2.22	2.22	2.22
Add: gross up for franking credits	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95	0.95
Assessable income	3.17	3.17	3.17	3.17	3.17	3.17	3.17	3.17	3.17	3.17
Less: tax on that assessable income	0.59	0.59	1.00	1.00	1.38	1.38	1.54	1.54	0.48	0.48
After tax dividend proceeds plus franking credits	2.58	2.58	2.17	2.17	1.79	1.79	1.63	1.63	2.69	2.69
Capital gains tax consequences										
Capital component of the Buy-back Price	1.78	1.78	1.78	1.78	1.78	1.78	1.78	1.78	1.78	1.78
Add: adjustment for excess of Maximum Buy-back Price	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Less: assumed cost base	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00
Nominal capital gain/(loss) on disposal	0.60	(0.62)	0.60	(0.62)	0.60	(0.62)	0.60	(0.62)	0.60	(0.62)
Discount capital gain/(loss)	0.30	(0.31)	0.30	(0.31)	0.30	(0.31)	0.30	(0.31)	0.40	(0.41)
Tax impact of capital loss/(gain)	(0.06)	0.06	(0.09)	0.10	(0.13)	0.13	(0.15)	0.15	(0.06)	0.06
After tax proceeds	1.72	1.84	1.69	1.88	1.65	1.91	1.63	1.93	1.72	1.84
Total after tax proceeds	4.30	4.42	3.86	4.05	3.44	3.70	3.26	3.56	4.41	4.53

Notes for Tables 1 & 2

The analysis assumes that:

- 1 The marginal tax rate includes the Medicare Levy at a rate of 1.5%. The liability of an individual to pay the Medicare Levy depends on the individual's own circumstances.
- 2 You are fully entitled to franking credit benefits/refunds.
- 3 The Maximum Buy-back Price is \$4.60. The Maximum Buy-back Price will depend on the S&P/ASX 200 index at the Closing Date.
- 4 Capital losses will be offset against capital gains.
- 5 You will be able to fully utilise capital losses to offset capital gains.
- 6 The discount capital gain method applies such that individuals pay tax on half of their gain and complying superannuation funds pay tax on two thirds of their gain.
- 7 Numbers presented are rounded to the nearest cent.

4.10.2 Sale of your Shares on ASX

Set out in the table below are examples of the after tax value you would derive per Share if you sold your Shares on the stock market for \$4.71, assuming alternative cost bases in Shares of \$1.78 and \$3.00. It is important to understand that the tables are examples only and are based on a number of assumptions (as indicated).

The example does not include the cost of any brokerage you may have to pay if you sell your Shares on ASX.

Table 3 Example tax calculations of selling your Shares on ASX – Australian resident individual shareholders and complying superannuation funds:

Tax payable	Your income \$6,001 – \$21,600		Your income \$21,601 – \$52,000		Your income \$52,000 – \$62,500		Your income \$62,501+		Complying superannuation fund	
	18.5% marginal tax rate		31.5% marginal tax rate		43.5% marginal tax rate		48.5% marginal tax rate		15% tax rate	
	A\$		A\$		A\$		A\$		A\$	
Assumed cost base	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00
Capital gains tax consequences										
Capital proceeds	4.71	4.71	4.71	4.71	4.71	4.71	4.71	4.71	4.71	4.71
Less: assumed cost base	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00	1.78	3.00
Nominal capital gain/(loss) on disposal	2.93	1.71	2.93	1.71	2.93	1.71	2.93	1.71	2.93	1.71
Discount capital gain/(loss)	1.47	0.86	1.47	0.86	1.47	0.86	1.47	0.86	1.95	1.14
Tax impact of capital loss/ (gain)	(0.27)	(0.16)	(0.46)	(0.27)	(0.64)	(0.37)	(0.71)	(0.42)	(0.29)	(0.17)
Total after tax proceeds	4.44	4.55	4.25	4.44	4.07	4.34	4.00	4.29	4.42	4.54

Notes for Table 3

The analysis assumes that:

- 1 The marginal tax rate includes the Medicare Levy at a rate of 1.5%. The liability of an individual to pay the Medicare Levy depends on the individual's own circumstances.
- 2 The discount capital gain method applies such that individuals pay tax on half of their gain and complying superannuation funds pay tax on two thirds of their gain.
- 3 Numbers presented are rounded to the nearest cent.

Section 5

EFFECT OF THE BUY-BACK ON IAG

As at 30 April 2004, IAG had 1,684,102,873 ordinary shares on issue. Assuming \$350 million of Shares are bought back at a Buy-back Price of \$4.50, approximately 78 million Shares (4.6% of all ordinary shares on issue) would be bought back and cancelled.

This section provides an indicative calculation of the effect of the Buy-back on IAG assuming an example Buy-back Price of \$4.50. You cannot rely on this price as being the Buy-back Price.

5.1 Statement of financial position

The table below sets out the statement of financial position of the Group as at 31 December 2003, together with a pro-forma statement of financial position. This has been prepared to illustrate the impact of the Buy-back assuming 78 million Shares had been bought back as at 31 December 2003 and also bringing to account the effect of the sale of the ClearView business in January 2004.

Insurance Australia Group Limited Consolidated statement of financial position	Pro-forma adjustments			Combined effect Pro-forma 31/12/2003
	¹ Actual 31/12/2003	² ³ Effect of Buy-back	⁴ ClearView sale	
	A\$m	A\$m	A\$m	
Cash and investments	11,068	(354)	(792)	9,922
Other assets	4,295	-	(16)	4,279
Intangibles	1,521	-	-	1,521
Total assets	16,884	(354)	(808)	15,722
Claims outstanding and unearned premium	9,543	-	(3)	9,540
Borrowings and other liabilities	3,064	-	(953)	2,111
Total liabilities	12,607	-	(956)	11,651
Net assets	4,277	(354)	148	4,071
Share capital	3,434	(138)	-	3,296
Accumulated (losses)/retained profits ⁵	(228)	(216)	43	(401)
Reset preference shares	539	-	-	539
Outside equity interest	532	-	105	637
Total equity	4,277	(354)	148	4,071

Notes

- ¹ The Group's consolidated statement of financial position has been extracted from the financial statements for the half year ended 31 December 2003, which were reviewed by IAG's auditor.
- ² The adjustments relating to the Buy-back are based on the following assumptions:
 - i IAG buys back \$350 million of Shares
 - ii The Buy-back Price is assumed to be \$4.50 per Share, comprising a capital component of \$1.78 per Share and fully franked dividend component of \$2.72 per Share. The number of Shares bought back is 78 million.
 - iii A Buy-back of \$350 million for \$4.50 per Share would result in a reduction in shareholders equity of \$350 million and a reduction in shares on issue from 1,684 million (as at 29 February 2004) to 1,606 million following the Buy-back.
 - iv The costs of the Buy-back of \$354 million includes \$4 million for estimated transaction expenses.
 - v The amount by which the Buy-back Price exceeds the amount adjusted to share capital (\$1.78 per Share) will be adjusted to retained profits. For example, if the Buy-back Price is \$4.50, retained profits will be reduced by an amount of \$2.72 per Share.
- ³ The precise financial impact of the Buy-back will not be known until the Buy-back Price, the total number of Shares to be bought back and the dividend component of the Buy-back Price are determined.
- ⁴ The financial position at 31 December 2003 has been adjusted for the sale of the ClearView business in January 2004 for \$219 million. These adjustments exclude the potential earn-out of up to \$50 million over the next five and a half years, which is based on certain performance targets being met by the ClearView business.
- ⁵ At 31 December 2003 IAG (the parent entity) had retained profits of \$423 million.

5.2 How will the Buy-back be funded?

The Buy-back will be funded from IAG's cash and investment assets. The amount IAG expects to pay out under the Buy-back is around \$350 million. However, IAG reserves the right, in its absolute discretion, to determine the number of Shares it will buy back, which may be more or less than \$350 million, subject always to the Buy-back Limit.

5.3 Impact of the Buy-back on key financial indicators

The precise effect of the Buy-back on earnings per share and return on equity cannot be determined at present because the Buy-back Price and the number of Shares to be bought back will not be known until after the completion of the Buy-back. On a pro-forma basis, had the Buy-back been completed on 30 June 2003, it would have been marginally dilutive to earnings per share and marginally positive to return on equity for the half year ended 31 December 2003. The proposed Buy-back is likely to be marginally dilutive in the first year and expected to increase IAG's earnings per share over time.

As at 31 December 2003, the Group had the capacity to fully frank approximately \$1,150 million of dividends. The amount of franking credits that IAG will utilise under the Buy-back will not be known until the Buy-back Price and the total size of the Buy-back is determined. In connection with the Buy-back, IAG has agreed with the Australia Taxation Office to accept an additional \$0.085 debit to its franking account per Share bought back. IAG expects to continue to be in a position to fully frank any dividends for the foreseeable future.

5.4 What effect will the Buy-back have on IAG's issued shares?

IAG currently has 1,684 million ordinary shares on issue. Assuming a total of \$350 million of Shares are bought back, the table below sets out the number of Shares and the percentage of total issued shares which would be bought back at different Buy-back Prices. All Shares that IAG buys back will be cancelled.

Assumed Buy-back Prices \$	Number of Shares bought back	Total issued shares %
4.00	87,500,000	5.2
4.50	77,777,778	4.6
5.00	70,000,000	4.2

5.5 Interim results

On 26 February 2004, IAG released its interim results for the half-year ended 31 December 2003 which were reviewed by IAG's auditor. The consolidated financial results are summarised below. These results and related information were lodged with ASX on 26 February 2004 and are available on www.iag.com.au/hy04

Insurance Australia Group Limited Consolidated financial results	Six months ended 31/12/2003 A\$m
Gross written premium	3,142
Gross earned premium	3,116
Reinsurance expense	(204)
Net premium revenue	2,912
Net claims expense	(1,909)
Underwriting expense	(726)
Underwriting profit	277
Investment income on technical reserves	67
Insurance profit	344
Investment income on shareholders' funds	204
Amortisation	(54)
Interest	(29)
Other	19
Profit before income tax	484
Income tax expense	(136)
Profit after income tax	348
Outside equity interests	(46)
Profit attributable to all shareholders	302
Dividends paid on reset preference shares	(14)
Profit attributable to ordinary shareholders	288
Insurance margin before tax	11.8%

5.6 Capital management

IAG actively manages its capital on three parameters:

- An estimated risk of ruin of no more than 1 in 750 years;
- A 'AA' category rating for its core wholly owned operating entities; and
- Economic capital, currently set at a benchmark of 1.6 times (x) the Group's risk-weighted MCR (minimum capital requirement) set by applying APRA principles to all its operations.

These parameters are supported by:

- Conservative claims reserving (minimum probability of sufficiency of 90%);
- Extensive reinsurance programme (maximum loss per event currently at less than 2% of combined ratio); and
- Strategic asset allocation programme to actively reduce investment volatility risks.

As at 31 December 2003, the Group's MCR multiple was 1.90x, which was 0.3x or approximately \$480 million, in excess of the benchmark multiple of 1.60x. The Buy-back is intended to utilise some of this surplus as the Board believes that IAG is unlikely to require this capital in the short term.

The precise effect of the Buy-back on the MCR multiple cannot be determined at present because the Buy-back Price and the number of Shares to be bought back will not be known until after the completion of the Buy-back. Based on the pro-forma statement of financial position (as at 31 December 2003) set out in section 5.1, the Buy-back would reduce the Group MCR multiple to approximately 1.70x.

The Board believes that after the Buy-back IAG will remain strongly capitalised. Following IAG's announcement to undertake the Buy-back, Standard & Poor's Ratings Services has affirmed the Group's core wholly owned operating entities' very strong insurer financial strength and counterparty credit ratings of 'AA' with a stable outlook.

Section 6

ADDITIONAL INFORMATION ON THE BUY-BACK

This section sets out further details of the Buy-back, including important information for joint shareholders, trustees and nominees.

6.1 Size of the Buy-back

ASIC has granted IAG an exemption under subsection 257D(4) of the Corporations Act to permit IAG to conduct the Buy-back as an equal access scheme. See section 6.16 for further details of the exemption granted by ASIC.

Under the Corporations Act, IAG may, without shareholder approval, buy back any number of Shares under an equal access scheme, provided that the number of voting shares bought back in the Buy-back and in any other Buy-back conducted in the previous 12 months, does not exceed 10% of the smallest number, at any time during the 12 months preceding the Buy-back, of votes attaching to IAG's voting shares. Although this limit would permit it to buy back around 168 million Shares, IAG intends to buy back around \$350 million of Shares but will not buy back more than 100 million Shares under this Buy-back, and retains the absolute discretion to buy back any lesser number of Shares or none at all.

6.2 Shareholders with more than one holding of Shares

You will receive a Tender Form for each separate registered holding of Shares (for example, if you hold some Shares in your name and some Shares jointly with your spouse, you will receive two Tender Forms). You may tender Shares in the Buy-back from any or all of your separate registered holdings provided that you complete the Tender Form and follow the instructions on each Tender Form for each holding you wish to tender.

Note that, if any of the separate registered holdings is for 1,000 Shares or less, in order to participate in the Buy-back in respect of that holding you must tender all of the Shares in that holding.

Any scale back that applies to Shares tendered from more than one of your registered holdings of Shares will be applied to each of those registered holdings as if they were held by different persons.

6.3 Joint shareholders

If you hold your Shares jointly with another person (for example, your spouse) you must complete and return the Tender Form in accordance with the instructions for joint holdings on the Tender Form.

6.4 Shares held by trustees and nominees

Trustees and nominees who hold Shares should inform the beneficial owners of the Shares about the Buy-back and then aggregate all Tenders received from beneficial owners. It is the responsibility of the trustee or nominee to complete an aggregated Tender Form on behalf of all beneficial owners.

In the case of Issuer Sponsored Holdings, to ensure that the beneficial holders' instructions are actioned, the trustee or nominee must ensure that an aggregated Tender Form is received by the IAG Share Registry by 5.00pm (Sydney time) on the Closing Date. For CHESS Holdings, the trustee or nominee will need to aggregate all Tenders received from beneficial owners and provide instructions to its controlling participant in time for the Tender to be processed by 5.00pm (Sydney time) on the Closing Date.

Any scale back that applies to Shares tendered by trustees or nominees will be performed on a registered shareholder basis.

6.5 Margin lending arrangements

If you hold Shares under margin lending arrangements or if they are held as security for a loan or as ACH collateral, you should ensure that your participation in the Buy-back is permitted by those margin lending arrangements, that loan documentation or by ACH.

Note that by submitting a Tender you warrant to IAG that when you tender your Shares for sale in the Buy-back, and on the Buy-back Date, the Shares are free from any mortgage, charge, lien or other encumbrance (whether legal or equitable) and from any third party rights. See section 6.7 for further details.

6.6 Shareholders who receive a government pension or allowance

The effect your participation in the Buy-back will have on your government pensions or allowances (or those of your dependants) will depend upon the value of the Shares bought back and on the level of your other income and assets. It is possible that your pension or allowance payments will not be affected at all because the social security income and assets tests allow you to have income and assets up to certain amounts without any reduction in payment. It will depend upon your particular circumstances. If you are in any doubt as to the action you should take, you should obtain advice specific to your circumstances.

If you would like information about the effect of participating in the Buy-back on your pension or allowance, you should contact Centrelink or the Department of Veterans' Affairs directly.

6.7 The effect of submitting a Tender

A Tender constitutes an offer to sell the tendered Shares to IAG on the terms and conditions set out in the Buy-back Documents. A Tender does not, of itself, constitute a binding contract for the sale of the tendered Shares and cannot be enforced against IAG. IAG retains the absolute discretion to accept or reject any Tender, and may choose to reject all Tenders. If IAG accepts your Tender, a binding Buy-back Contract is formed between you and IAG on the Buy-back Date, and you must sell to IAG the number of Shares that IAG determines to buy back from you (which will not exceed the number of Shares you tendered) on the terms and conditions set out in the Buy-back Documents.

By submitting a Tender, you:

- agree to the terms and conditions set out in the Buy-back Documents;
- offer to sell to IAG on the Buy-back Date the number of Shares offered for sale on your Tender Form (adjusted in accordance with the terms and conditions set out in the Buy-back Documents) at your Tender Price(s);
- agree that IAG's announcement to ASX on the Buy-back Date is effective notice or communication of IAG's acceptance of those of your Tenders which are:
 - submitted at or below the Buy-back Price or as a Final Price Tender (adjusted in accordance with the terms and conditions set out in the Buy-back Documents);
 - submitted in accordance with the Buy-back Documents (or treated by IAG as being so submitted); and
 - not rejected by IAG.

You also agree that IAG's announcement to ASX is effective notice or communication of IAG's rejection of any of your Tenders above the Buy-back Price. You waive any requirement to receive notice or communication from IAG of its acceptance or rejection of any Tender submitted by you;

- warrant to IAG that at any time you tender your Shares for sale in the Buy-back, and on the Buy-back Date, the Shares which you have tendered are:
 - registered in your name;
 - fully paid up;
 - free from any mortgage, charge, lien or other encumbrance (whether legal or equitable) and from any third party rights; and
 - otherwise able to be sold freely into the Buy-back;
- warrant to IAG that there is no legal reason why you cannot participate in the Buy-back or receive the proceeds of sale of your Shares;
- agree that IAG may, in its absolute discretion and at any time, determine that any Tender it receives is a valid Tender, even though one or more of the requirements for making a Tender have not been complied with. Where the shareholder has satisfied the requirements for making a Tender in respect of only some of their Shares, IAG may, in its absolute discretion, regard the Tender to have been made in respect of those Shares, but not the remainder;
- authorise IAG (and its officers, agents or contractors) to correct any error in or omission from your Tender Form or your Withdrawal/Amendment Form and to complete the Tender Form by inserting any missing details;
- authorise IAG (and its officers, agents or contractors), to transfer the Shares you have tendered to any register maintained by IAG which IAG in its absolute discretion considers desirable;
- acknowledge that neither IAG nor any other party involved in the Buy-back has provided you with financial product advice, or has any obligation to provide this advice, concerning your decision to participate in the Buy-back;
- authorise IAG to make payment:
 - by direct credit to your nominated account if you have a direct credit authority recorded on the IAG share register on the Closing Date; or
 - by cheque to be mailed to your address shown on the IAG share register on the Closing Date if you do not have a direct credit authority recorded on the IAG share register on the Closing Date,and, in each case, you will be taken to have accepted the risk associated with such payment;
- acknowledge that despatch of payment as described above satisfies IAG's obligations to make a payment to you for the Shares bought back;
- undertake not to sell or offer to sell Shares to any other person if, as a result, you will at any time after you submit your Tender until the Buy-back Date hold fewer Shares than the number of Shares you have tendered;

- agree that damages is not an adequate remedy for breach of these covenants, undertakings, agreements and warranties;
- undertake that, if you breach any of these covenants, undertakings, agreements or warranties you will indemnify IAG for all its costs arising from the breach; and
- agree that any obligation of IAG to buy back Shares tendered by you is conditional on your compliance with the covenants, undertakings, agreements and warranties set out on the previous page.

You will be taken to have submitted a Tender when the IAG Share Registry receives your signed and completed Issuer Sponsored Holding Tender Form or, if you have a CHESS Holding, your Tender is processed by your controlling participant through CHESS.

6.8 IAG's rights to accept or reject Tenders and Tender Forms

At any time, IAG may:

- accept or reject any or all Tenders or Tender Forms; and
- accept or reject a Tender not made strictly on the terms and conditions set out in the Buy-back Documents, or Tender Form not submitted in accordance with the procedures set out in the Buy-back Documents.

IAG may do each of these things in relation to all or some of the Tenders or the Tender Forms it receives, in its absolute discretion.

6.9 IAG's right to vary or terminate the Buy-back

IAG may, in its absolute discretion, vary or terminate the Buy-back at any time on or before the Buy-back Date by making an announcement to that effect to ASX.

IAG may also extend the timetable for the Buy-back in the same manner.

6.10 IAG's right to waive requirements and correct errors

IAG may, in its absolute discretion and at any time, deem any Tender it receives to be a valid Tender, disregard any Tender it believes should be disregarded and may waive any or all of the requirements for making, amending or withdrawing a Tender. It may do each of these things in relation to some, all or any number of Tenders it receives.

If you tender a number of Shares in excess of the total number of Shares that you are entitled to sell, you will be deemed to have offered only the total number of Shares you are entitled to sell, and if you have nominated more than one price:

- 6.10.1 first, the excess Shares will be deemed to be excluded from your Tender at the highest price you selected;
- 6.10.2 if, after applying 6.10.1 above, there are still remaining excess Shares, it will be deemed that those excess Shares are excluded from your Tender at the next highest price you selected; and
- 6.10.3 if, after applying 6.10.2 above, there are still remaining excess Shares, then 6.10.2 will be reapplied to those excess Shares until there are no longer any remaining excess Shares.

If you sell Shares during the Tender Period such that you do not at the Buy-back Date hold at least the number of Shares you successfully tendered, IAG may in its absolute discretion, either:

- reject your Tender in its entirety; or
- treat your Tender as if you had offered only the number of Shares you held at 5.00pm (Sydney time) on the Closing Date, provided that you also held no less than that number of Shares at the Record Date, in which case, if you tendered Shares at more than one Tender Price you will be treated as set out in sections 6.10.1, 6.10.2 and 6.10.3 above.

6.11 Restrictions on the payment of Buy-back proceeds

IAG will pay shareholders the Buy-back Price for each of their Shares that are bought back, unless it is prohibited from doing so by the operation of law.

6.12 Unsuccessful Tenders

Shares that have been tendered into the Buy-back but are not bought back will be released to shareholders' holdings as soon as processing of the Buy-back has been completed after the Closing Date.

6.13 Employee share plan shares

If you are a participant in IAG's Allocation Share Plan, Bonus Equity Share Plan, Performance Award Rights Plan or non-executive directors share plan, you are not eligible to participate in the Buy-back in respect of those Shares. Shares in these plans are currently held by the Trustee and the plans restrict dealings in those Shares. Any Shares which are held

in these plans are not included on your Tender Form. The Trustee of the plans will not participate in the Buy-back in respect of the Shares held by it. Only those Shares that you are free to trade will be included on your Tender Form.

6.14 Stamp duty

Stamp duty will not be payable on the cancellation of your Shares following acceptance of your Tender(s).

6.15 Directors' entitlements

Directors are entitled to participate in the Buy-back, but the IAG Board has determined that the directors of IAG and certain designated employees of IAG should not participate in the Buy-back. As at 30 April 2004, the directors of IAG held or had a relevant interest in the following IAG shares and options (Performance Share Rights) over unissued IAG shares:

	Shares		Options
	Direct	Indirect	
James Strong	12,083	139,122	–
John Astbury	10,083	38,252	–
Geoffrey Cousins	150,000	18,252	–
Dominique Fisher	4,799	56,078	–
Neil Hamilton	4,817	60,460	–
Michael Hawker	183,971	–	1,000,000
Anne Keating	709	18,252	–
Rowan Ross	102,557	40,058	–

6.16 ASIC and ASX relief

ASIC has granted IAG an exemption under subsection 257D(4) of the Corporations Act. This exemption permits IAG to:

- 6.16.1 conduct the Buy-back similarly to the conduct of an equal access buy-back in accordance with Division 2 of Part 2J.1 of the Corporations Act;
- 6.16.2 use the scale back mechanism described in section 3.3;
- 6.16.3 invite shareholders to offer to sell Shares in accordance with the terms and conditions set out in the Buy-back Documents rather than IAG offering to buy back such Shares;
- 6.16.4 invite shareholders with 1,000 Shares or less to offer to sell Shares only if they submit one Tender for all of their Shares at either a specified price in the tender range or as a Final Price Tender; and
- 6.16.5 not make an invitation to shareholders who either hold Shares under one of IAG's employee share plans or under IAG's non-executive directors share plan, or have a registered address outside Australia.

ASX has granted IAG the following:

- a waiver from Listing Rule 7.40 to permit IAG to despatch the Buy-back Documents to shareholders no later than seven business days after the Record Date; and
- a waiver from Listing Rule 3.8A to permit IAG to lodge an Appendix 3F on the second business day after the Closing Date.

6.17 Privacy

IAG is carrying out the Buy-back in accordance with the Corporations Act. This involves the collection of personal information on Tender Forms to enable IAG and its agents to process your Tender. If you do not provide this information, IAG and its agents may be hindered in, or prevented from, processing your Tender.

The personal information collected by IAG and its agents will only be disclosed to Computershare Investor Services Pty Limited in its capacity as share registrar of IAG, to a print and mail service provider, to IAG's advisers in relation to the Buy-back and to financial institutions in respect of payments to you in connection with the Buy-back or as required or authorised by law.

If you wish to access the individual information collected by IAG and its agents in relation to your shareholding, please write to IAG, care of Computershare Investor Services Pty Limited at the mailing address set out in section 2.1.

6.18 Applicable law

This Invitation, your Tender, and the Buy-back generally, are governed by the laws of New South Wales.

Section 7

DEFINITIONS AND INTERPRETATION

7.1 Definitions

In the Buy-back Documents unless the context otherwise requires:

ACH means the Australian Clearing House Pty Ltd

ASIC means the Australian Securities & Investments Commission

ASTC means ASX Settlement & Transfer Corporation Pty Ltd

ASTC Settlement Rules means the settlement rules of the securities clearing house of ASX from time to time

ASX means Australian Stock Exchange Limited

ATO means the Australian Taxation Office

Board or **IAG Board** means the Board of directors of IAG

Buy-back means the buy back of shares by way of tender set out in the Buy-back Documents

Buy-back Contract means the contract formed on the Buy-back Date between you and IAG if IAG accepts your Tender

Buy-back Date means the date IAG announces to ASX the Buy-back Price, the total number of Shares to be bought back and the details of any scale back

Buy-back Documents means this booklet, your Tender Form and any Withdrawal/Amendment Form

Buy-back Limit means the limit on the number of Shares to be bought back by IAG, equal to 100 million Shares

Buy-back Price means the price at which IAG will buy back Shares from Tenders it accepts in the Buy-back

CGT means capital gains tax

CHESS means the Clearing House Electronic Subregister System

CHESS Holder means a holder of Shares on the CHESS subregister of IAG

CHESS Holding means a holding of Shares on the CHESS subregister of IAG

Closing Date means 5.00pm (Sydney time) on Friday, 18 June 2004 for all shareholders, unless IAG announces a different date

Corporations Act means the Corporations Act 2001 (Commonwealth)

Demutualisation means the conversion of NRMA Insurance Limited from a company limited by guarantee to a company limited by shares and the issue of shares in IAG to former members of NRMA Insurance Limited on 24 July 2000

Ex-Date means Thursday, 6 May 2004

Final Price Tender means a Tender in which the shareholder elects to receive the Buy-back Price, whatever IAG determines it to be within the tender range of \$4.00 to \$5.00 per Share

Group means IAG and its subsidiaries

IAG means Insurance Australia Group Limited (ABN 60 090 739 923)

IAG Share Registry means the share registry of IAG maintained by Computershare Investor Services Pty Limited (ABN 48 078 279 277)

Invitation means IAG's invitation for shareholders to offer to sell their Shares, as set out in the Buy-back Documents

Issuer Sponsored Holder means a holder of Shares on the issuer sponsored subregister of IAG

Issuer Sponsored Holding means a holding of Shares on the issuer sponsored subregister of IAG

Maximum Buy-back Price has the meaning given to it in section 4

Participant means an Account Participant, a Specialist Settlement Participant, or a General Settlement Participant as defined in the ASTC Settlement Rules

Payment Date means Monday, 28 June 2004

Record Date means Wednesday, 12 May 2004

Shares means fully paid ordinary shares in the capital of IAG on issue as at Wednesday, 12 May 2004



Small Holding means 500 Shares or less. However, if by ensuring no shareholder is left with a Small Holding as a result of the scale back provisions in section 3, IAG would exceed the number of Shares that it determines to buy back, then IAG may determine that a Small Holding is less than 500 shares

Tender means a shareholder's offer to sell Shares back to IAG at a Tender Price and on the terms and conditions set out in the Buy-back Documents as amended in accordance with the procedures set out in this Buy-back booklet

Tender Form means the form of offer by a shareholder to sell Shares to IAG, which is enclosed with this booklet, and includes a Tender Form amended in accordance with the procedures set out in the Buy-back Documents

Tender Period means the period within which shareholders may lodge, withdraw or amend a Tender in accordance with the Buy-back Documents

Tender Price means one of the specified prices from \$4.00 to \$5.00 per Share set out on the Tender Form or, where a Final Price Tender is submitted, the Buy-back Price

Trustee means IAG Share Plan Nominee Pty Limited as the trustee of The IAG Share and Performance Awards Rights Plans Trust (incorporating the Bonus Equity, Allocation Share, Equity Share, NED Share and Performance Award Rights Plans)

Withdrawal/Amendment Form means the form entitled "Withdrawal/Amendment Form" which is available as described in section 2.4

you or **shareholder** means a holder of Shares in IAG

7.2 Interpretation

In the Buy-back Documents, unless the context otherwise requires:

- the singular includes the plural, and vice versa;
- words importing one gender include other genders;
- other parts of speech and grammatical forms of a word or phrase defined in this document have a corresponding meaning;
- terms used in the Buy-back Documents and defined in the Corporations Act have the meanings given to them in the Corporations Act;
- a reference to currency is to Australian dollars; and
- a reference to time is to (Sydney time).

The postal acceptance rule does not apply to Tenders. Unless otherwise specified, the directors of IAG (or their authorised delegates) may exercise all powers of IAG under the Buy-back Documents that are not, by the Corporations Act or by IAG's constitution, required to be exercised by IAG's shareholders. All references to dates in the Buy-back Documents are subject to variation at IAG's absolute discretion.

Section 8

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If you have any questions on the Buy-back after reading this booklet please call the IAG Buy-back information line on 1300 666 635 or speak to your professional adviser.

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Sydney NSW 2000

Financial Adviser

Macquarie Equity Capital Markets Limited

Legal & Tax Adviser

Mallesons Stephen Jaques

Auditor

KPMG

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