



10 September 2018

Manager, Company Announcements Office
ASX Limited
Level 4
Exchange Centre
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

Insurance Australia Group Limited (IAG) capital management initiative flyer

Please find attached a flyer that provides a quick guide to the capital management initiative that is the subject of resolutions 7 and 8 in the company's 2018 Notice of Annual General Meeting. This guide is intended to supplement – and not replace – the full explanatory notes on the resolutions in the Notice of Meeting.

A copy of the flyer will be provided to all shareholders and will be available on IAG's website at: <https://www.iag.com.au/2018-capital-management-initiative>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rebecca Farrell'.

Rebecca Farrell
Company Secretary

IAG 2018 Capital Management Initiative

25 cents per ordinary share

Component	Capital return 19.5 cents	Special dividend (fully franked) 5.5 cents
Dividend Reinvestment Plan	Not available	Available

2018 Capital Management Initiative

On 15 August 2018, IAG announced a proposed capital management initiative, being:

- a payment of 25 cents per ordinary share, comprising a capital return of 19.5 cents per ordinary share and a fully franked special dividend of 5.5 cents per ordinary share; and
- an equal and proportionate consolidation of ordinary shares.

Collectively, these initiatives are referred to as the capital management initiative and are subject to shareholder approval at the 2018 Annual General Meeting to be held on 26 October 2018 (AGM).

What is proposed?

If approved, the capital management initiative will provide shareholders with a payment of 25 cents per ordinary share through a capital return of 19.5 cents per ordinary share and the payment of a fully franked dividend of 5.5 cents per ordinary share. The total payment to shareholders will be approximately \$592 million.

The capital return and special dividend will be accompanied by an equal and proportionate consolidation of ordinary shares. To achieve the consolidation, every ordinary share will be converted into 0.9760 ordinary shares as follows:

$$\text{Share consolidation ratio} = \frac{(a-b)}{a} = 0.9760$$

where:

- a = the volume weighted average sale price of IAG's ordinary shares over the five trading days up to and including 10 August 2018 (\$8.1341)
- b = the amount of the capital return (19.5 cents per share)

If the capital management initiative is approved, the total number of ordinary shares on issue will be reduced from around 2,368 million to around 2,311 million (a reduction of around 57 million ordinary shares), however each shareholder will own the same proportionate interest in IAG after the consolidation as they did before the consolidation (subject to the rounding up of fractional entitlements to the next whole number of ordinary shares).

Why is IAG doing this?

IAG currently holds equity capital in excess of targets and regulatory requirements. In acknowledgment of this surplus capital and the absence of significant operational demands on its capital, the capital management initiative proposes returning a portion of the surplus capital to shareholders to ensure an efficient capital structure.

The proposed share consolidation will have the effect of allowing IAG to maintain a consistent Earnings Per Share (EPS) measure that is not distorted by the capital return.

Example for an individual shareholder

A shareholder with 100 ordinary shares on the Record Date (1 November 2018) would expect \$19.50 as a capital return and \$5.50 as a fully franked special dividend. Using the consolidation ratio of 0.9760, the 100 ordinary shares would be consolidated into 97.6 ordinary shares, which would be rounded up to 98 ordinary shares.

When will I get the payment?

If the capital management initiative is approved by shareholders at the AGM, the capital return and special dividend will be paid on 26 November 2018. Payments will be made by direct credit to the account recorded at IAG's share registry, Computershare Investor Services Pty Limited, on 1 November 2018.

Will the Dividend Reinvestment Plan (DRP) apply?

The special dividend is eligible for participation in IAG's DRP. The DRP issue price will be based on an average of the daily volume weighted average sale price of IAG's ordinary shares (excluding some special trades) from 12 to 16 November 2018.

The last date for receipt of an election notice to participate in the DRP for the special dividend is 2 November 2018.

The capital return is not eligible for participation in the DRP.

How do I provide or update my banking details?

The special dividend and capital return will be paid to eligible shareholders by direct credit to the bank account nominated by each shareholder for receipt of dividends. These details can be updated by visiting www.computershare.com.au/easyupdate/iag or contacting the share registry on 1300 360 688 (in Australia) or + 61 3 9415 4210. The share registry must receive new details by 1 November 2018.

What are the tax implications?

Tax implications for shareholders will depend on their particular circumstances. All shareholders should therefore seek their own professional advice in relation to their tax position.

IAG has applied for an ATO Class Ruling to confirm the Australian tax consequences for certain shareholders who hold their shares on capital account for tax purposes. It is anticipated that, in broad terms:

- the special dividend will be a frankable distribution and treated as a normal dividend for shareholders;
- there should be no immediate tax liability for most shareholders relating to the capital return as the tax cost base of shares is instead reduced, thereby deferring any tax payable by shareholders until they dispose of the shares; and
- no capital gains tax event should occur as a result of the share consolidation.

IAG expects the above to be confirmed in a Class Ruling to be issued by the ATO after payment of the capital return and special dividend (if applicable). The ruling will be made available at www.iag.com.au/2018-capital-management-initiative.

Where can I get more information?

- **Read the 2018 Notice of Meeting for the AGM**
- **Call the Information Line on 1300 360 688 (in Australia) or +61 3 9415 4210**
- **Go to the IAG website www.iag.com.au/2018-capital-management-initiative**

Key dates

26 October 2018	Date of AGM and potential shareholder approval
29 October 2018	Last date for trading ordinary shares to be entitled to the special dividend and capital return. Last day for trading in pre-consolidated ordinary shares
30 October 2018	Ex date – ordinary shares traded from this date will not be entitled to the special dividend or capital return Commencement of trading in consolidated shares on a deferred settlement basis. Ordinary shares will trade during this period with the ticker code IAGDA instead of IAG
1 November 2018	Record Date for the capital management initiative Entitlements to the special dividend and capital return will be determined on a pre-consolidation basis
2 November 2018	Record Date for DRP participation
5 November 2018	Share Consolidation Date – post-consolidation ordinary shares entered into register
7 November 2018	Last day of deferred settlement trading Dispatch of holding statements in connection with the consolidation
8 November 2018	Ordinary shares resume trading on a normal (T+2) settlement basis under ticker code IAG
26 November 2018	Payment date for special dividend and capital return DRP shares issued Dispatch of holding statements in connection with shares received under the DRP