



25<sup>th</sup> February 2010

The Manager  
Company Announcements  
Australian Securities Exchange  
Level 6, Exchange Centre,  
20 Bridge Street  
Sydney, NSW 2000

Dear Sir / Madam,

**Re: Market Announcement on Results for the Half Year ended  
31 December 2009**

Attached for immediate release is Austbrokers Holdings Limited (AUB)  
Market Announcement in relation to the results for the Half Year ended 31  
December 2009.

Yours faithfully,

A handwritten signature in blue ink, appearing to be 'SR' followed by a flourish.

Stephen Rouvray  
**Company Secretary**  
Austbrokers Holdings Limited

For further information, contact Steve Rouvray Tel: (02) 9935 2201  
Mobile: 0412 259 158



# ASX release

25 February 2010

## Austbrokers increases interim profit by 7%

### Highlights:

- 7% increase in Net Profit After Tax but before profits on sale of interests in associates and controlled entities and amortisation of intangibles (Adjusted NPAT) to \$7.8 million (six months to 31 December 2008 \$7.3 million)
- Net Profit After Tax<sup>1</sup> was \$7.2million (six months to 31 December 2008 \$6.7 million) also up 7%
- 7% increase in interim dividend to 7.5 cents per share, payable on 30 April 2010

Austbrokers Holdings Limited (ASX: AUB) today announced a profit<sup>1</sup> of \$7.2 million for the six months ending 31 December 2009 (six months to 31 December 2008 \$6.7 million).

Shareholders will benefit from an interim dividend of 7.5 cents per share fully franked for the half year, payable on 30 April 2010. This is an increase of 7% on the previous years' interim dividend per share.

Adjusted NPAT was \$7.8 million for the six months to 31 December 2009 compared to the same period last year of \$7.3 million, an increase of 7%. Before income tax, the increase over the 2009 first half was 9.5%.

Earnings per share increased by 5.6% ( 5.5% based on Adjusted NPAT) over the prior period.

Chief Executive Lachlan McKeough said "Our insurance broking network, with 40 broking firms operating throughout Australia, has performed extremely well despite a significant loss of income through the lower interest rates prevailing during the six months to 31 December 2009 compared to the corresponding prior period.

"Acquisitions made within the broking network have contributed to this growth as have direct acquisitions. Income has also increased through development of premium funding and through the joint venture with IBNA supplementing growth in commission and fee income.

The Austagencies underwriting agency business has shown an increase in revenue and continued to expand its product range which places it in a good position for further growth in the second half. Ignoring the reduction in interest income its profit contribution before income tax was up 7.5%."

In the six months to 31 December 2009, the company has continued to make acquisitions including a 50% interest in Austral Insurance Brokers in Perth and Tasman Underwriting along with smaller businesses and portfolios within the broker network. Acquisition activity has been relatively moderate over recent times reflecting the current level of activity in the market. The attractiveness of the Austbrokers owner-driver model is expected to generate further acquisition opportunities as the age demographics of the broking industry drive the need for succession solutions.

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<sup>1</sup> Net Profit after tax attributable to equity holders of the parent

The loan facility of \$44.3 million provided by St George Bank which extends to August 2013 was drawn down to \$33.9 million at 31 December 2009. After allowing for estimated future earn out payments on completed acquisitions a further \$10 million will be available from the facility for future acquisitions.

Premium rate increases have been only moderate and not across all classes. This situation is not likely to change significantly in the absence of any significant deterioration in underwriter claims experience. In this context the previous earnings guidance given of 5% to 10% growth in Adjusted NPAT over the 2009 financial year has been maintained.

## Austbrokers Half-Year Results breakdown (six months to 31 December 2009)

|  | 1HY2010<br>\$' 000 | 1HY2009<br>\$' 000 | Variance<br>% |
|--|--------------------|--------------------|---------------|
| Revenue from continuing operations                                     | 49,162             | 46,061             | 6.7           |
| Expenses from continuing operations -<br>Expenses                      | (37,984)           | (36,182)           | 5.0           |
| Borrowing Costs  | (1,218)            | (1,182)            | 3.0           |
| Profit from continuing operations                                      | 9,960              | 8,697              | 14.5          |
| Profit from sale of interests in associates<br>and controlled entities | 642                | 540                | 18.8          |
| Profit before tax  | 10,602             | 9,237              | 14.8          |
| Income tax expense   | (2,162)            | (1,614)            | 33.9          |
| Net profit after tax   | 8,440              | 7,623              | 10.7          |
| Profit attributable to non-controlling<br>interests                    | (1,272)            | (934)              | 36.2          |
| Net Profit attributable to equity holders of<br>the parent             | <b>7,168</b>       | <b>6,689</b>       | <b>7.2</b>    |

### Notes

1. The after tax profits include profits on sale of interests in associates and controlled entities in 1HY2010 of \$0.6 Million (1HY2009 \$0.5 million) on which no tax was payable due to carried forward capital losses. These profits result from restructures in equity holdings and may occur from time to time. The profit in 1HY2010 resulted largely from a revaluation on a subsidiary becoming an associate due to the dilution of shareholding interest following an issue of shares to a third party as part of an acquisition of a business.
2. Subsidiaries acquired during 1HY2010, which resulted from increases in equity in companies that were previously associates, have contributed the majority of the increases in both consolidated income and expenses.
3. Revenue from ordinary activities includes the Group's share of net profit after tax from associates which are companies and the Group's share of net profits before tax from associates which are unit trusts.

## Analysis of underlying profits

A more informative representation of Austbrokers' performance is seen after removing:

- Profits on sale of interests in associates and controlled entities
- Amortisation of intangibles

Reconciliation of reported result to Adjusted NPAT from continuing operations before amortisation of intangibles is set out below:

|   | <b>1HY2010\$<br/>000</b> | <b>1HY2009\$<br/>000</b> | <b>Increase<br/>%</b> |
|---|--------------------------|--------------------------|-----------------------|
| Net Profit after tax attributable to equity holders of the parent                 | 7,168                    | 6,689                    | 7.2%                  |
| Less Profits after tax on sale of interests in associates and controlled entities | (642)                    | (540)                    |                       |
| Net Profit from continuing operations   | 6,526                    | 6,149                    | 6.4%                  |
| Add back Amortisation of intangibles net of tax                                   | 1,260                    | 1,121                    |                       |
| Adjusted NPAT   | <b>7,786</b>             | <b>7,270</b>             | <b>7.1%</b>           |

To give a more comprehensive view of overall movements, the following table aggregates 100% of the equity accounted brokers' revenues and expenses with those of the consolidated brokers and corporate before deducting minority interests.

|  | <b>1HY2010\$<br/>000</b> | <b>1HY2009\$<br/>000</b> | <b>Variance<br/>%</b> |
|--|--------------------------|--------------------------|-----------------------|
| Revenue                                  | 102,175                  | 95,691                   | 6.8                   |
| Expenses                                 | (80,850)                 | (75,463)                 | 7.1                   |
| Profit before tax                        | 21,325                   | 20,228                   | 5.4                   |
| Profit attributable to minority interest | (10112)                  | (9,988)                  | 1.2                   |
| Net profit                               | 11,213                   | 10,240                   | 9.5                   |
| Income tax expense                       | (3,427)                  | (2,970)                  | 15.4                  |
| Adjusted NPAT                            | <b>7,786</b>             | <b>7,270</b>             | <b>7.1</b>            |

## Analysis of results

Adjusted NPAT for 1HY2010 increased by 7% over the corresponding prior period as a result of:

- Direct acquisitions contributed 2.8% to the 7% growth.
- Growth from the existing broker network, including acquisitions made, contributed 8.8% to the profit growth. Premium rates increases have only been moderate over the period. The network growth in base commission and fee income was around 5% (excluding direct acquisitions). Total commission and fee income increased by 7.3% and total income by 5.8% over the prior period (excluding direct acquisitions). Premium funding income was up 20% due to the ongoing successful development of the alliance with Pacific Premium Funding. Lower interest earnings in the broker network reduced growth in profit by around 11% from what it would otherwise have been.
- Expenses in the broker network increased by 5.9% (excluding direct acquisitions). This reflects some increase as a result of acquisitions within the network, direct expenses related to income growth as well as some inflationary increase in costs.

- Underwriting agency profits were marginally below last year as a result of lower interest earnings. Income increased by 5% (excluding interest income) and profit would have increased by 7.5% if not for the reduced interest earnings.
- Corporate expenses were 4.7% below the corresponding prior period principally due to recovery of IT costs incurred up front with the development of the central data centre. This contributed 1.9% to profit growth.
- Corporate interest earned decreased due to lower interest rates and reduced amounts on loan (to the extent that loans are made to the broker network the benefit of which is included the brokers' contribution). This reduction had the effect of reducing growth by 3.7%.
- A tax credit of \$155,000 in the prior year resulted in an increased tax expense in the current period reducing the increase in NPAT by 2.3%.

### **Assessment of results**

The brokers' results compared to the prior corresponding period have been impacted by lower interest rate earnings net of a reduction in borrowing costs, employment of additional resources to grow the business and some deferral of business to the second half. Despite these factors and with only moderate premium rate increases, good growth in profits has been achieved and a platform established to continue growth into the future.

Considering these factors, the overall 1HY2010 results were very pleasing.

### **Outlook**

With recent increases in interest rates, 2HY2010's interest earnings will not decline compared to 2HY 2009 therefore allowing the underlying growth in the business to emerge.

Premium rate increases are expected to continue to be only moderate.

Contributions to growth from direct acquisitions and acquisitions within the network will lessen in the second half as many of these were made at the beginning of or during 2HY2009. It is not expected that the acquisition activity in the market will increase in time to make any significant contribution in the remainder of FY 2010 results but other initiatives in the network will maintain profit increases.

A significant amount of insurance business is due late in the second half and the June renewal season makes a large contribution to the year's results. In addition the broker network receives profit commissions from insurers, the amount of which will not be known until later in the second half.

In the context of the above, the Company is maintaining its previous earnings guidance for FY 2010 of Adjusted NPAT growth before amortisation of intangibles and profits on sale of interests in associates and controlled entities of 5% - 10% over FY 2009.

### **Dividend**

On 25 February 2010, the Directors declared a fully franked interim dividend of 7.5 cents per share. This dividend is payable on 30 April 2010. Based on issued shares of 51,858,960 shares, this dividend will total \$3,889,422.

The Company activated its Dividend Reinvestment Plan (DRP), which it established at the time of its initial listing, for the final dividend for FY2009. The DRP will be open to future dividends until further notice including the interim dividend for FY2010. For shareholders to be eligible for the DRP in relation to the interim dividend for FY2010 elections will need to be received by the share registry by 5pm on 12 April 2010.

If a shareholder has previously submitted an election to participate in the DRP, those instructions will apply to the forthcoming interim dividend and all future dividends. If a shareholder wishes to vary its participation status, a notice of variation must be received by the share registry by 5pm on 12 April 2010 in order to be effective for the forthcoming interim dividend.

The price for Austbrokers shares allocated under the DRP will be the "price" determined under the DRP rules (being the daily volume weighted average market price of all ordinary shares sold in the ordinary course of trading on the ASX during the 5 day trading period starting on the second business day following the record date of the dividend) less any applicable discount determined by the Austbrokers' board. For the forthcoming interim dividend for FY2010, ordinary shares will be issued at a 2.5% discount to the relevant "price". Austbrokers may determine a different discount for subsequent dividends.

Subject to agreeing acceptable terms, Austbrokers proposes to have any DRP shortfall for the interim dividend underwritten.

The DRP will be open to shareholders whose registered address is in Australia or New Zealand at the relevant record date.

**– Ends –**

***For further information please contact:***

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**This announcement may contain forward looking statements relating to future matters, which are subject to known and unknown risks, uncertainties and other important factors which could cause the actual results, performance or achievements of Austbrokers and the Austbrokers Group to be materially different from those expressed in this announcement. Except as required by law and only to the extent so required, neither Austbrokers nor any other person warrants that these forward looking statements relating to future matters will occur.**