25th February 2013

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 2012

Attached for immediate release is Austbrokers Holdings Limited (AUB) Market Announcement in relation to the results for the Half Year ended 31 December 2012.

Yours faithfully,

Stephen Rouvray
Company Secretary
Austbrokers Holdings Limited

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ASX release

25 February 2013

Austbrokers increases interim profit

Highlights:

— Net Profit After Tax[1] was $24.5 million (1HY 2011 $11.2 million) which included a net $12.2 million benefit from adjustments relating to acquisitions.

— **20% increase in underlying Net Profit After Tax (Adjusted NPAT) to $13.8 million (six months to 1HY 2011 $11.5 million)**

— 15.8% increase in interim dividend to 11.] cents per share, payable on 26th April 2013

Austbrokers Holdings Limited (ASX: AUB) today announced a profit[1] of $24.5 million for the six months ending 31st December 2012 (six months to 31st December 2011 $11.2 million).

As advised in our acquisition update released to the ASX on 27th November 2012, the Net Profit After Tax of $24.5 million included a fair value adjustment to the carrying value of associates on the date at which they became controlled entities and an adjustment to the contingent consideration on the acquisition of a controlled entity. Last year profit included the latter and an income tax credit arising from the recognition of a deferred tax asset in relation to prior years' share based payment expense as well. If the above mentioned items, together with the amortisation of intangibles are excluded, the net profit after tax (Adjusted NPAT) was $13.759 million in 2012 (2011: $11.461 million), an increase of 20%.

Earnings per share increased by 17% based on Adjusted NPAT over the prior period.

Shareholders will benefit from an interim dividend of 11.0 cents per share fully franked for the half year, payable on 26 April 2013. This is an increase of 15.8% on the previous years' interim dividend per share.

The results for the 1HY2013 were again very good reflecting the contribution from increases in equity in existing businesses and direct acquisitions, growth in the broking business assisted by premium rate increases and bolt on acquisitions as well as further development and expansion of the Austagencies underwriting agency business.

Insurance broking operations increased pre tax profits by 14.1% of which 5.4% was from increased equity or direct acquisitions, the remainder from growth in business including bolt on acquisitions. While increases in premium rates for property were evident, other classes have remained relatively stable and therefore overall increases were moderate. Commission and fee income for the network increased by 7.3% and total income by 8.0%, again including the contribution of acquisitions. Expenses in the network rose 7.0%

Acquisitions totaling $15.5 million (sourced from cash held), including the increases in equity holdings in Insurics, Adroit, Austbrokers Canberra and Comsure, were secured during the period. Other acquisitions were Taggart & Associates, based in Sydney's north west, by Austbrokers Sydney and Austbrokers Financial Solutions and 50% of BGA Insurance Brokers based in Hobart. In addition a number of bolt on acquisitions have been made by network members including MGA, Austbrokers RWA and Strathearn adding over $2.5 million in income to the network.

[1] Net Profit after tax attributable to equity holders of the parent

Austagencies' commission and fee income increased by 37%, of which 6% related to acquisitions. Expenses increased by 29% as capability continues to be built up. Profit before tax increased by 57% of which 3% was generated by acquisitions.

Conscious that information technology is and will increasingly be the major enabler of efficiently transacting business, continued efforts have been directed in this area. These included the iClose platform currently being utilised with selected underwriters for businesspak insurance, on which other products will be transacted in the future. In addition, to support these activities, additional resources have been employed.

New Chief Executive Officer Mark Searles, who joined the company in January, has instigated a review of strategy and ongoing business operations with the objective of ensuring the business continues to be well positioned to build on its success and also to determine the strategies required. Mr Searles commented: "I have been very impressed with the solid foundations upon which the business is built and the benefits derived from the owner-driver model. I am keen to ensure we drive an environment of continuous improvement so that Austbrokers is well set to capitalise on market opportunities".

In terms of outlook, the second half year should see continuing increases in premium rates in property classes (most likely continuing at only a moderate level) and also a further contribution from acquisitions in the first half. The amount of profit commissions that will be paid by underwriters will not be known until later in the year. In addition, interest rates have decreased and have the potential to decrease further, which impacts on investment earnings in the second half.

Given the above mentioned factors, we expect the current profit growth to moderate in the second half and now consider the growth in Adjusted NPAT for FY2013 will be in the range of 10% to 15% above FY2012 an increase on the previous guidance of 5% to 10%.

Austbrokers Half-Year Results breakdown (six months to 31 December 2012)

	1HY2013 $' 000	**1HY2012 $' 000**	**Variance %**
Revenue from operations	80,690	58,988	36.7
Expenses			
Expenses from operations	(58,700)	(42,432)	38.3
Borrowing Costs	(1,547)	(1,241)	24.7
Profit before acquisition adjustments	20,443	15,315	33.5
Fair value adjustment to the carrying value of associates on the date at which they became controlled entities	12,630	0	
Adjustment to contingent consideration	(490)	398	
Profit before tax	32,583	15,713	107.4
Income tax expense	(5,269)	(2,821)	86.8
Net profit after tax	27,314	12,892	111.9
Profit attributable to non-controlling interests	(2,825)	(1,678)	68.4
Net Profit attributable to equity holders of the parent	**24,489**	**11,214**	**118.4**

Notes

1. The after tax profits for 1HY 2013 include a fair value adjustment to the carrying value of associates on the date at which they became controlled entities of $12.6 million and a loss on adjustment of contingent consideration for an acquisition of $0.5 million. Profits or losses may occur in future years where actual contingent payments vary from amounts originally estimated.
2. The after tax profits for 1HY 2012 include a profit on adjustment of contingent consideration for an acquisition of $0.4 million.
3. Income tax expense in 1HY 2012 includes a credit of $0.6 million resulting from the recognition of a deferred tax asset in relation to prior years' share based payments expenses.
4. Revenue from operations 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.
5. During the period three former associates became controlled entities and as a result their revenue, expenses and income tax expense are now included in those line items in the above table whereas last year only the share of after tax profits was included in revenue. The offset for this is in part reflected in the increase in profit attributable to non-controlling interests.

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 and adjustments to contingent consideration relating for acquisitions.

— Fair value adjustments to the carrying value of associates on the date at which they became controlled entities.

— Amortisation of intangibles.

— Tax credit arising from the recognition of a deferred tax asset on prior periods' share based payments expense (1HY 2012).

Reconciliation of reported Net Profit after Tax attributable to equity holders to Adjusted NPAT is set out below:

	1HY2013 $' 000	1HY2012 $' 000	Increase %
Net Profit after tax attributable to equity holders of the parent	24,489	11,214	
Less Fair value adjustments to the carrying value of associates on the date at which they became controlled entities*	(12,630)	0	
Add (Less) Profits (Losses) from variation in contingent consideration (net of controlling interests)*	414	(398)	
Less income tax credit relating to prior years*	0	(631)	
Net Profit from operations	12,273	10,185	20.5
Add back Amortisation of intangibles net of tax*	1,486	1,276	16.5
Adjusted NPAT	13,759	11,461	20.0

*This financial information has been extracted from the consolidated financial statements which have been subject to review by the company's auditors.

To give a more comprehensive view of the performance of Austbrokers and its associates, the following table aggregates 100% of the equity accounted brokers' and underwriting agencies revenues and expenses with those of the consolidated brokers before deducting other equity interests. This eliminates the distortion that results from associates becoming controlled entities during the period referred to in Note 5 above.

	1HY2013 $' 000	1HY2012 $' 000	Variance %	Contribution to profit increase %
Insurance broking revenue	131,311	121,595	8.0	
Insurance broking expenses	(94,117)	(87,998)	7.0	
Net profit	37,194	33,597	10.7	
Profit attributable to other equity interests	(15,168)	(14,301)	6.1	
Austbrokers net profit from insurance broking	**22,026**	**19,296**	**14.1**	**16.9**
Underwriting agencies net income	13,325	9,390	41.9	
Underwriting agencies expenses	(9449)	(7,038)	34.3	
Net profit	3,876	2,352	64.8	
Profit attributable to other equity interests	(734)	(353)	107.9	
Austbrokers net profit from underwriting agencies	**3,142**	**1,999**	**57.2**	**7.0**
Net profit before corporate income / expenses	**25,168**	**21,295**	**18.2**	**23.9**
Corporate expenses	(5,405)	(4,793)	12.8	(4.0)
Corporate finance costs	(988)	(968)	2.1	(0.1)
Corporate income	1,058	1,005	5.3	0.3
Net corporate expenses	**(5,335)**	**(4,756)**	**21.2**	**(3.8)**
Net profit before tax	**19,833**	**16,539**	**19.9**	**20.1**
Income tax expense	(6,074)	(5,078)	19.6	(0.1)
Adjusted NPAT	**13,759**	**11,461**	**20.0**	**20.0**

Analysis of results

Adjusted NPAT for 1HY2013 increased by 20% over the corresponding prior period:

- Growth from the existing broker network, including bolt on acquisitions made, acquisitions and increases in equity were the main driver for this profit growth contributing growth in Adjusted NPAT over the corresponding prior period of 16.9%. Direct acquisitions and increases in equity contributed 6.6% of this before funding costs.

  Compared to the prior period, total commission and fee income increased by 7.3% and total income by 8.0% (impacted by lower interest rates reducing interest income by 10%), while expenses increased by 7%. These increases reflected organic growth in the business including premium increases, acquisitions, direct expenses related to income growth as well as inflation.

- Underwriting agency profits were 57% above last year due largely growth in the business gained in instituting new agencies. Income overall increased by 38% with commission and fees excluding profit commissions increasing by 37%. Expenses increased by 29% due to additional resourcing to support growth. Growth in profit excluding acquisitions was 54%. Underwriting agencies contributed 7% to the growth in Adjusted NPAT.

- Corporate expenses and finance costs increased by $632,000 or 11.0% above the corresponding prior period reflecting increased resourcing in information technology ($250,000) acquisition expenses ($123,000) and higher incentive accruals ($225,000) which reduced overall profit growth by 4.0%.

- Borrowing costs were up only marginally reducing Adjusted NPAT growth by 0.1%.

- Corporate interest earned increased due to higher amount of cash held offsetting the impact of lower interest rates. This increase had the effect of increasing Adjusted NPAT growth by 0.3%.

- Income tax expense is marginally higher compared to last year due decreasing Adjusted NPAT growth by 0.1%.

<u>Assessment of results</u>

The Group's results reflect the growth that has been achieved in both the broking and underwriting businesses assisted by both direct and bolt on acquisitions as well as additional profits arising from increasing equity in a number of businesses. While operations have benefited from increasing premium rates, these increases have been relatively moderate when taken over the entire portfolio. The result achieved indicates that the business is performing well and its current strategies continue to deliver the desired outcomes.

<u>Outlook</u>

Reasonable growth in commission and fee revenue has been achieved by the broker network in the first half and this is expected to continue into the second half.

The bolt on acquisitions made so far this year together with the direct acquisitions and increases in equity in existing members, will contribute to an increase in earnings in the second half.

As indicated previously, a significant amount of insurance business is due late in the second half with 55% of profit earned in the last four months of the year. The broker network also receives profit commissions from insurers, the amount of which will not be known until later in the second half.

In addition interest rates have reduced which will impact interest earnings in the second half.

Taking these factors into account, the 20% growth in Adjusted NPAT achieved for 1HY 2013 is again likely to moderate over the full year as it has in past years. We are however increasing our earnings guidance for FY 2013 to 10% to 15% growth in Adjusted NPAT over FY2012 from growth of 5% to 10% previously given.

<u>Dividend</u>

On 25th February 2013 the Directors declared a fully franked interim dividend of 11.0 cents per share. This dividend is payable on 26th April 2013. Based on issued shares of 57,568,703 shares, this dividend will total $6,332,557.

The dividend will be eligible for re-investment under the Company's Dividend Reinvestment Plan (DRP). For shareholders to be eligible for the DRP in relation to the interim dividend for FY2013 elections will need to be received by the share registry by 5pm on 9 April 2013.

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 9th April 2013 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 FY2013, ordinary shares will be issued at a 2.5% discount to the relevant "price". Austbrokers may determine a different discount for subsequent dividends.

Austbrokers does not propose 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 –

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