



# 2021 full year results

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1 October 2020 to 30 September 2021

24 NOVEMBER 2021

# Agenda

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## Chairman's update

Michael Stiasny, Chairman

2



## Business update

Blair Turnbull, Chief Executive Officer

3



## FY21 financial performance

Jeff Wright, Chief Financial Officer

4



## Looking forward

Blair Turnbull, Chief Executive Officer

# Chairman's update – Dividends & premium growth in a challenging market

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## TACKLING THE CHALLENGES

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- Addressing profit challenges first signalled at the half year
- Responding with rating and underwriting actions with improvements expected through FY22
- \$400m premium milestone reached through unique technology and distribution footprint

## STRONG AND WELL CAPITALISED

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- 2.5¢ dividend bringing full year to 5¢ per share
- RBNZ licence condition reduced from \$50m to \$25m
- Proposed return of \$30.4m excess capital through compulsory buy back

## POSITIONED FOR LONG-TERM GROWTH

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- Flagship Tower Direct digital business
- Unique partnership distribution capability
- Digitising our resilient Pacific business to improve efficiency & growth
- Leading technology partnerships
- Continued efficiency improvements



An aerial photograph of a coastal town. The foreground shows a dense residential area with various houses, some with red roofs, interspersed with lush green trees. A dark, calm body of water is visible in the lower-left corner. In the background, a large, flat-topped mountain or island rises from the sea under a clear blue sky. The text "Good growth in a challenging environment" is overlaid in white, bold, sans-serif font across the middle of the image.

Good growth in a challenging environment

# A journey of continued focus & innovation

2021+

## LONG TERM EARNINGS, DIVIDENDS & PREMIUM GROWTH

Scaling leading platform - Pacific digitisation rollout,  
migrating ANZ and Youi books

Expanding quality product suite

Innovating the customer experience

Building leading partnerships

Automating and enhancing claims journey

Investing in our people and culture

2020-2021

## STRENGTHENING THE BUSINESS

Resolving legacy issues

EQC settlement

RBNZ licence condition reduced \$25m

Tower entity amalgamation

Continuing customer migration to new  
platform

2015-2019

## RE-PLATFORM

Product rationalisation

Christchurch recovery

Investment in cloud-based,  
EIS platform implementation

## Results achieved while navigating a challenging environment

REPORTED PROFIT  
incl. large events

**\$19.3m**

vs \$11.2m prior year

UNDERLYING NPAT  
incl. large events

**\$20.8m**

vs \$28.4m prior year

COMBINED OPERATING  
RATIO (COR)

**91.4%**

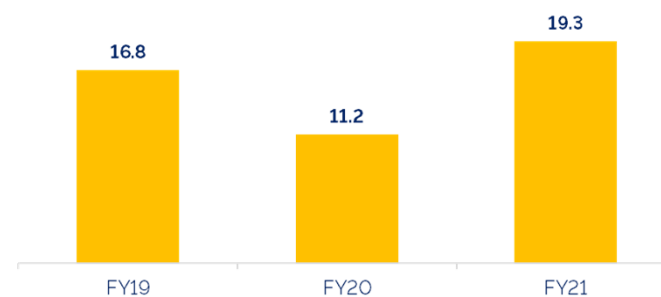
Increased 2.7% from  
88.6% prior year

TOWER GROSS WRITTEN  
PREMIUM (GWP)

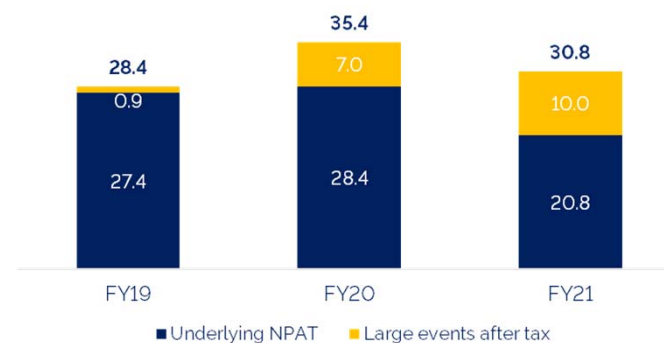
**\$404m**

Up 5% from \$385m  
prior year

REPORTED PROFIT (\$m)



UNDERLYING NPAT EXCL. LARGE EVENTS (\$m)



## Impact of external factors

NET INVESTMENT  
INCOME (pre-tax)

**\$0.2m**

vs \$5.3m prior year

LARGE EVENTS  
(pre-tax)

**\$13.9m**

vs \$9.7m prior year

LARGE HOUSE CLAIMS

**92**

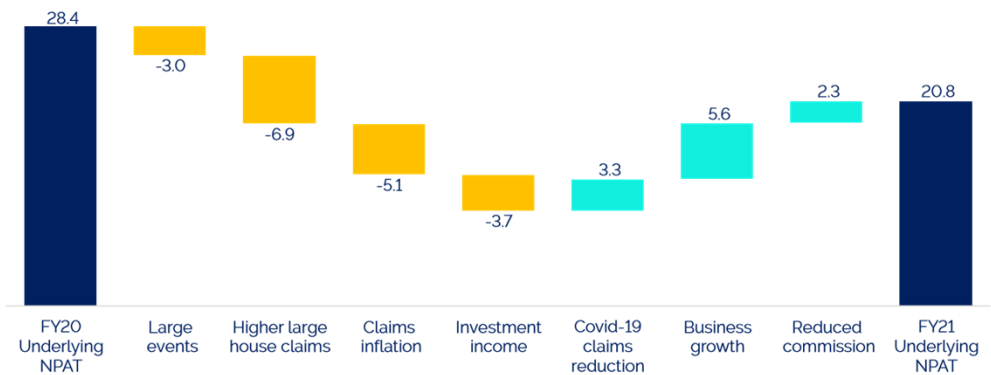
vs 57 prior year

CLAIMS INFLATION  
(pre-tax)

**\$7.1m**

Increase in claims  
expense

MOVEMENT IN UNDERLYING NPAT (\$m)



## Good growth in customers and premium

NZ GWP GROWTH

**7.9%**

To \$350m GWP

CUSTOMERS

**304,000**

Up 5% on prior year

NET PROMOTER SCORE

**43%**

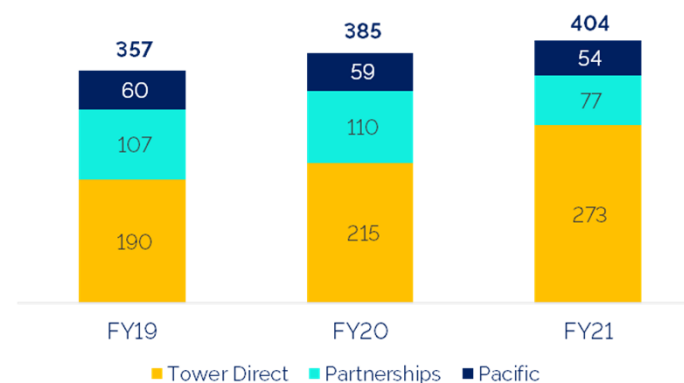
vs 27% prior year

MYTOWER REGISTRATIONS

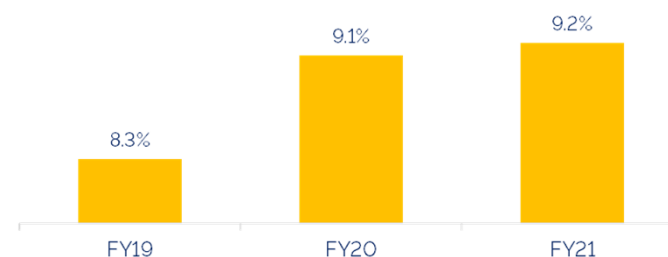
**132,000**

vs 45k prior year

GWP BY BUSINESS UNIT (\$m)



NZ PERSONAL LINES MARKET SHARE





# Product, pricing and underwriting enhanced through data

NZ BAU LOSS RATIO

**53.6%**

Up 4% on prior year

NZ UNDERWRITING IMPROVEMENTS

**Full house fire replacement cap**  
**Flood risk-based pricing**

NZ CUSTOMERS WITH MULTIPLE PRODUCTS

**50%**

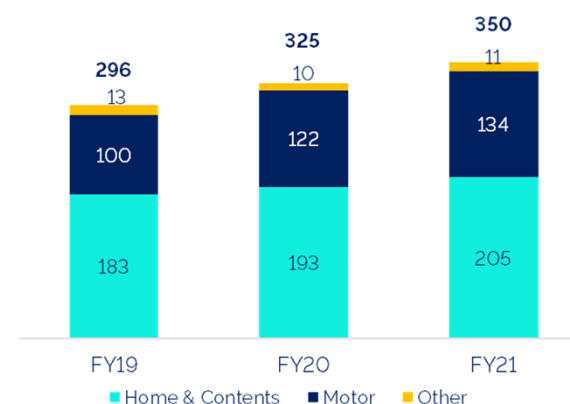
135,000 NZ customers have multiple products

MULTIPLE PRODUCT HOLDER TENURE

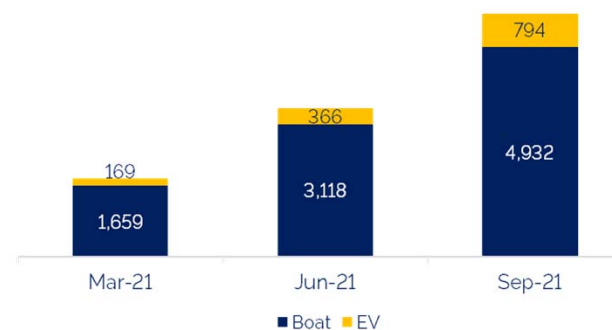
**7.9 years**

vs 4.8 years for a single product holder

NZ PRODUCT MIX GWP (\$m)



NZ NEW BUSINESS RISKS - ELECTRIC VEHICLE & BOAT



# Investing in digital platform for efficiency and scalability

NZ SERVICE TASKS  
COMPLETED DIGITALLY

**51%**

vs 40% prior year

NZ CLAIMS LODGED  
DIGITALLY

**31%**

vs 23% prior year

TOTAL CUSTOMERS  
MIGRATED TO EIS

**80%**

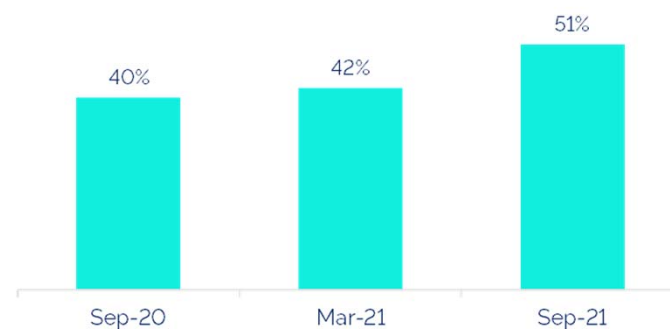
vs 62% in  
September 2020

CORE ADMIN LEGACY  
SYSTEMS REMAINING

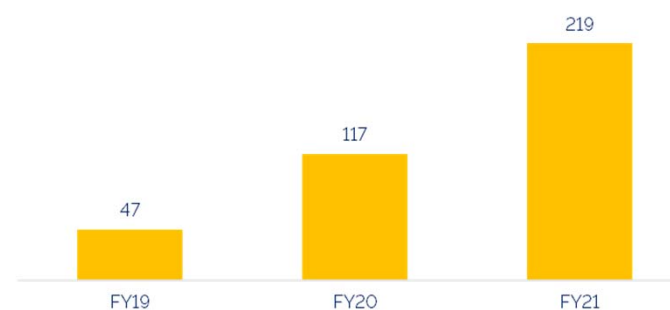
**4**

vs 6 prior year,  
2 remaining by end  
of 2022

NZ SERVICE TASKS  
COMPLETED DIGITALLY



TECHNOLOGY SYSTEM RELEASES



## MER improving while continuing to invest

TOWER MANAGEMENT  
EXPENSE RATIO

**37%**

2% better than prior  
year

ACQUISITION COST

**12.6%**

vs 13% in prior year

NET COMMISSION  
EXPENSE REDUCED

**22%**

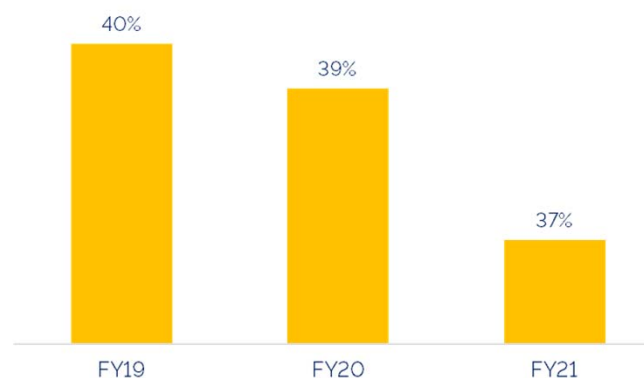
Reduction following  
book purchase and  
reinsurance profit share

DIGITAL AND DATA

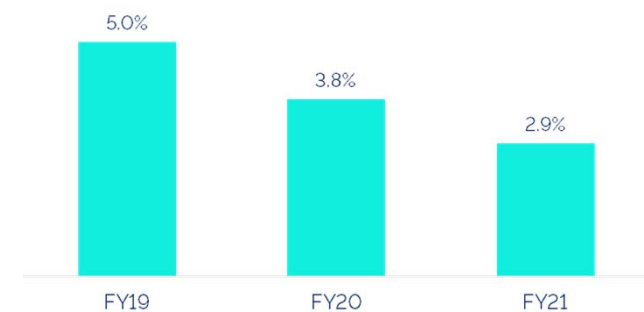
**\$1 in \$3**

Of total management  
expenses

MANAGEMENT EXPENSE RATIO (% NEP)



COMMISSION EXPENSE RATIO (% GEP)



## Strong capital & solvency, delivering shareholder returns

TOWER PARENT SOLVENCY

**271%**

Before return of  
capital

FULL YEAR DIVIDEND  
PAYMENT

**\$21m**

\$10.5m to be paid  
2 Feb 2022

ORDINARY  
DIVIDEND POLICY

**60-80%**

Of cash earnings\*  
where prudent to do  
so

PROPOSED CAPITAL RETURN  
OF

**\$30.4m**

Via compulsory  
share buyback\*\*

2.5¢ dividend  
bringing full year to  
**5¢ per share**

# FY21 financial performance





## Group underlying financial performance

\$ million	FY21	FY20	Change
Gross written premium	404.1	385.1	18.9
Unearned premium	(9.2)	(4.6)	(4.5)
Gross earned premium	394.9	380.5	14.4
Reinsurance	(62.2)	(57.2)	(5.0)
<b>Net earned premium</b>	<b>332.7</b>	<b>323.3</b>	<b>9.4</b>
BAU claims expense	(166.8)	(149.7)	(17.1)
Large event claims expense	(13.9)	(9.7)	(4.2)
Management expenses	(112.0)	(112.7)	0.7
Net commission expense	(11.3)	(14.5)	3.2
<b>Underwriting profit</b>	<b>28.7</b>	<b>36.7</b>	<b>(8.0)</b>
Net investment income	0.2	5.3	(5.1)
Other income	1.4	0.5	0.9
Tax	(9.5)	(14.1)	4.7
<b>Underlying NPAT</b>	<b>20.8</b>	<b>28.4</b>	<b>(7.6)</b>
One-off transactions (net of tax)	(1.5)	(17.2)	15.7
<b>Reported profit after tax</b>	<b>19.3</b>	<b>11.2</b>	<b>8.1</b>

- Solid FY21 GWP of \$404.1m. GWP growth \$18.9m on FY20 (+5%)
- BAU claims expense impacted by higher volume of large house claims and emerging claims inflation
- Management expense ratio improved by 2.3%, reflecting scale platform efficiencies
- The acquisition of the ANZ portfolio and higher proportional reinsurance profit share contributed to lower commission expenses
- Underlying NPAT before large events of \$30.8m is a decrease of 13% on FY20
- Profit impacted by lower investment income
- Reported profit of \$19.3m, increase of 72% on FY20. Impacted by EQC receivable write down in FY20 of \$9.5m after tax

Key ratios	FY21	FY20	Change
Claims ratio excluding large events	50.2%	46.3%	3.8%
Large events claims ratio	4.2%	3.0%	12%
Expense ratio	37.0%	39.3%	-2.3%
Combined ratio	<b>91.4%</b>	<b>88.6%</b>	<b>2.7%</b>

# Claims challenges for insurers

Tower's FY21 result reflects the claims challenges that insurers can face

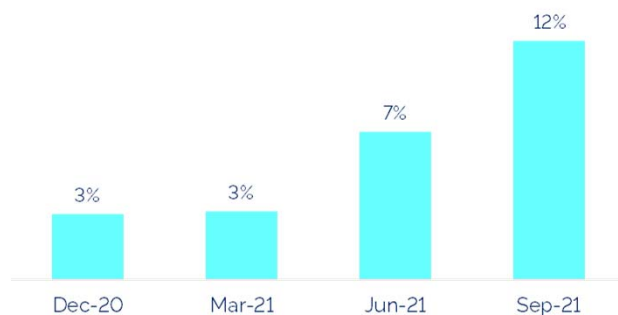
External factors	<b>Large events</b>	The volatility of large events in New Zealand and the Pacific is high. The reinsurance programme is Tower's main tool in managing this.
	<b>Changing claims trends</b>	Large fire-related house claims increased in FY21 which can be a changing trend or random volatility that needs to be explained and managed.
	<b>Inflation</b>	When inflation occurs, quick identification and action is key. The FY21 inflation also raises a question of whether it is a short-term spike or a long-term change.
	<b>Supply chain</b>	As New Zealand is heavily dependent on imports, supply chain issues like those associated with Covid-19 can be particularly challenging.

Tower pricing, policies, and process changes have been actioned to address these challenges. It takes 12 months for those actions to flow through the whole portfolio.

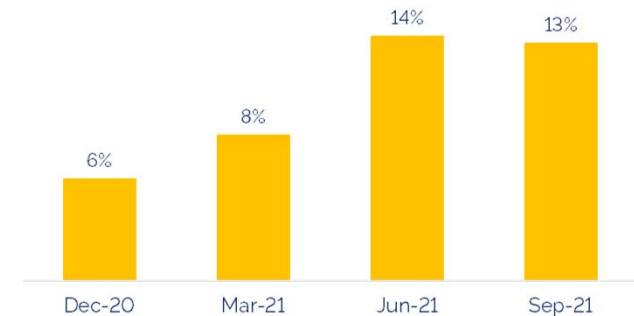
# Claims inflation in New Zealand impacted us heavily

- Claims inflation was anticipated due to Covid-19, but when it emerged it was more sudden and extreme than expected
- Covid-19 lockdowns and supply chain delays mean there are more open claims than normal, so the impact of inflation is likely not over yet
- Rating increases have been applied and will take 12 months to flow through the whole portfolio
- Tower will continue to monitor inflation closely, taking action as necessary

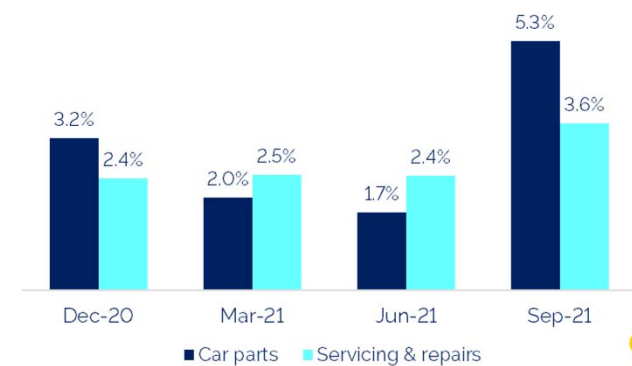
**HOUSE CONSTRUCTION CPI YOY%**



**SECONDHAND VEHICLE CPI YOY%**



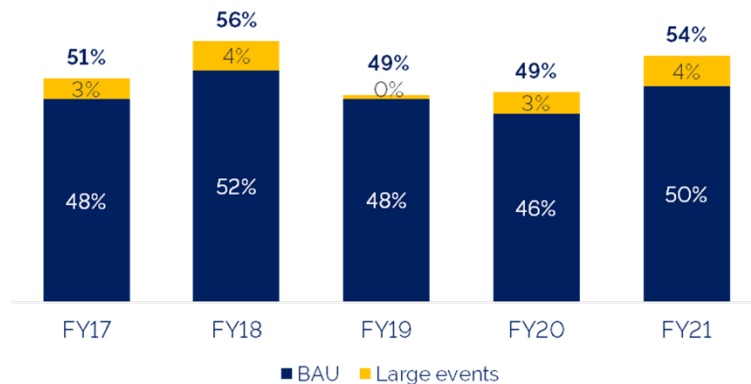
**CAR PARTS & REPAIRS CPI YOY%**



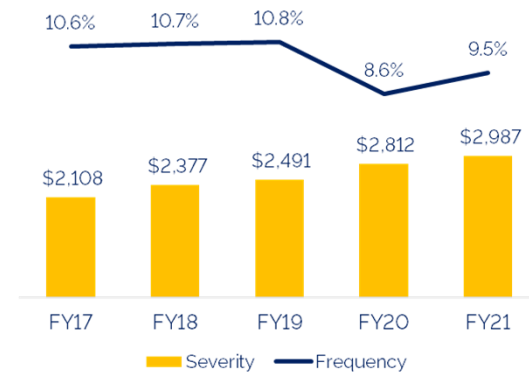
# Sharp focus on claims management

- Both BAU and large events ratios were the highest since 2018
- Inflation has been a significant driver of this with average motor claims up 6% and average house claims up 7%
- Rate increases have been applied to all portfolios
- Frequency of motor claims has dipped with Covid-19, while frequency of house claims has increased

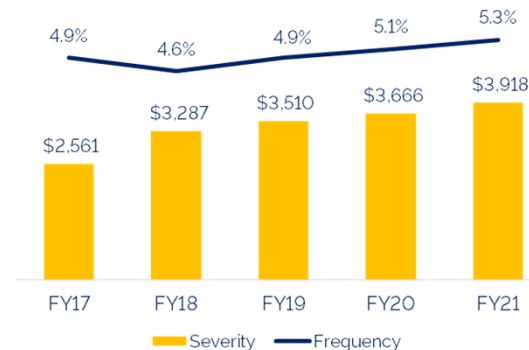
**TOTAL CLAIMS RATIO**



**NZ MOTOR FREQUENCY & SEVERITY**

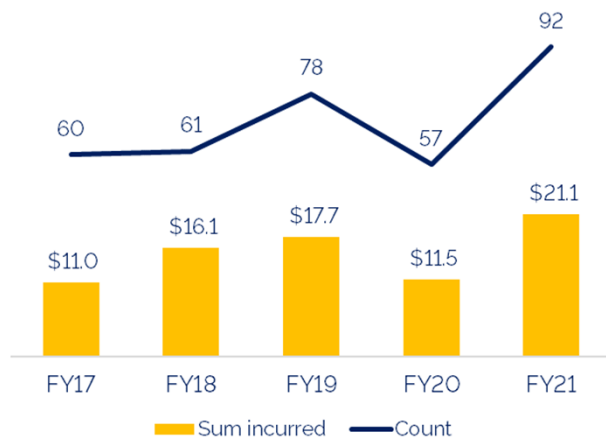


**NZ HOUSE FREQUENCY & SEVERITY**

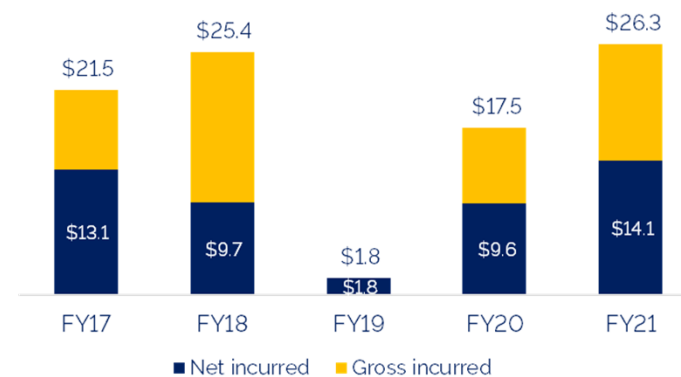


# Large house claims and large events

NZ LARGE HOUSE CLAIMS (\$m)<sup>1</sup>



LARGE EVENTS CLAIMS (\$m)<sup>2</sup>  
(BASED ON EVENT DATE)



- Both NZ large house claims and large events were at their highest for many years in FY21
- With most large house claims being fire related, Tower has removed the uncapped replacement benefit for total loss house fires
- Tower has investigated the large house fire claims trends but identified no single factor that explains the rise – this analysis continues
- The introduction of risk-based pricing for flood will enable Tower to better manage high risk exposures for large events

Note 1: Large house claims are defined as greater than \$50k NZD

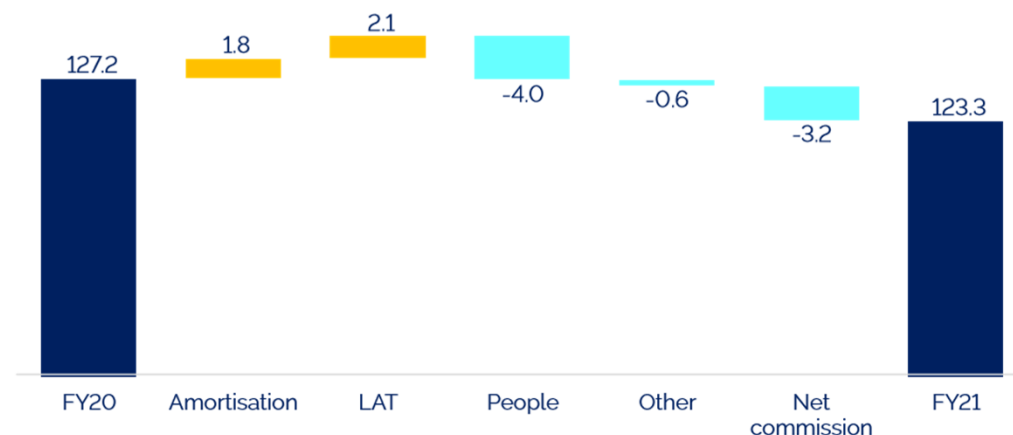
Note 2: Large event claims are defined as \$1m NZD or greater that impact more than one risk. The gross and net incurred claims have been updated for the most recent ultimate estimate and recoveries subsequently received after each reporting period. Prior period adjustments have been allocated back to the reporting period to match the event date



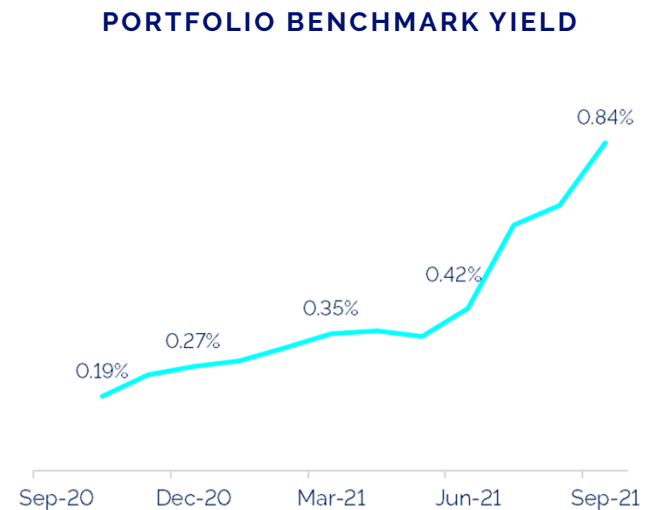
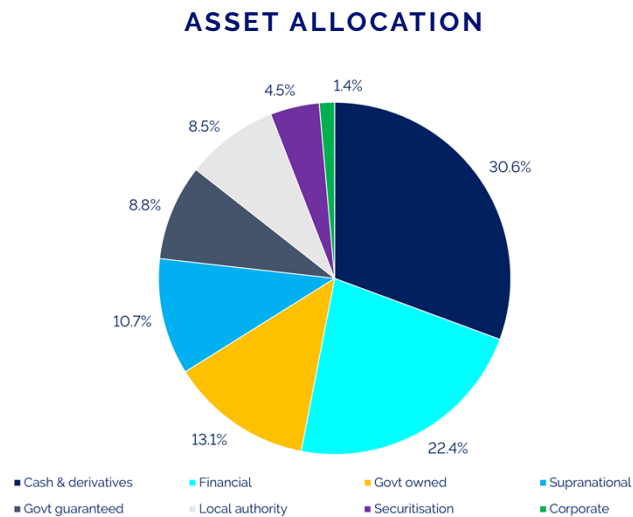
## Continued focus on management expenses

- Management expenses reduced \$3.9m to \$123.3m in FY21
- MER improved 2.3% on FY20, down to 37%
- Amortisation expense increased largely due to ANZ & EIS amortisation
- Liability adequacy test (LAT) resulted in an additional \$2.1m of acquisition costs that were unable to be capitalised
- People expenses reduced by \$4.0m partly through the realisation of benefits of the EIS platform post implementation
- Net commission expenses decreased due to the purchase of the ANZ portfolio, and an increase in reinsurance profit share income in FY21

MOVEMENT IN MANAGEMENT EXPENSES (\$m)



# Macroeconomic factors impact investment income

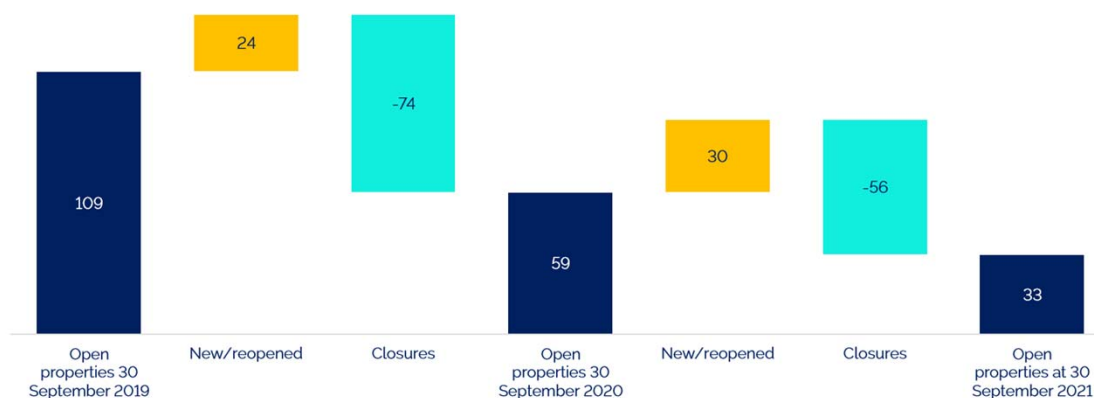


- Tower maintains a conservative investment policy, with the focus on high credit quality and liquidity, and an investment duration of six to twelve months
- Net investment income \$0.2m vs \$5.3m in FY20
- Low interest rates in the first half of FY21
- Rapidly rising interest rates in the second half drove marked-to-market unrealised losses totaling \$2.4m (\$0.2m 2020)

# Canterbury earthquake claims continue to reduce

- Continued reduction in open claims with 56 claims closed in FY21
- 30 new EQC overcaps and reopenings in line with expectations with the flow reducing through FY21
- Gross outstanding claims down to \$22.6m
- Several complex open claims have had significant strengthening, driven by both inflation and more costly rectification approaches
- The additional risk margin of \$5m was released through FY21 reflecting the continued run-off of CEQ claims

## OPEN CEQ CLAIMS



## CEQ RESERVING

\$ million	Sep-21	Mar-21	Sep-20	Mar-20	Sep-19	Mar-19	Sep-18
Case estimates	6.8	7.3	9.7	15.1	20.8	29.7	37.5
IBNR/IBNER <sup>1</sup>	9.6	9.9	11.6	11.7	15.5	17.7	18.1
Claims handling expense	1.3	1.6	1.9	1.9	2.5	2.6	3.3
Risk margin	4.9	5.1	5.7	6.7	7.8	9.0	9.0
Additional risk margin	0.0	2.5	5.0	5.0	5.0	5.0	5.0
Actuarial provisions	15.8	19.1	24.2	25.3	30.8	34.3	35.4
<b>Gross outstanding claims</b>	<b>22.6</b>	<b>26.4</b>	<b>33.9</b>	<b>40.4</b>	<b>51.6</b>	<b>64.0</b>	<b>72.9</b>

# Robust reinsurance programme supports resilience

## FY22 reinsurance renewal

- Increase of catastrophe cover from \$812m to \$873m, with increase of retention to \$11.25m (from \$10m)
- Aggregate cover placed with an excess of \$20m (up from \$14m) and event range of \$2m to \$10m (up from \$1m to \$7.5m)
- Reinsurers on average expect the aggregate excess to be exceeded one in every four years

## REINSURANCE PROGRAMME OVERVIEW

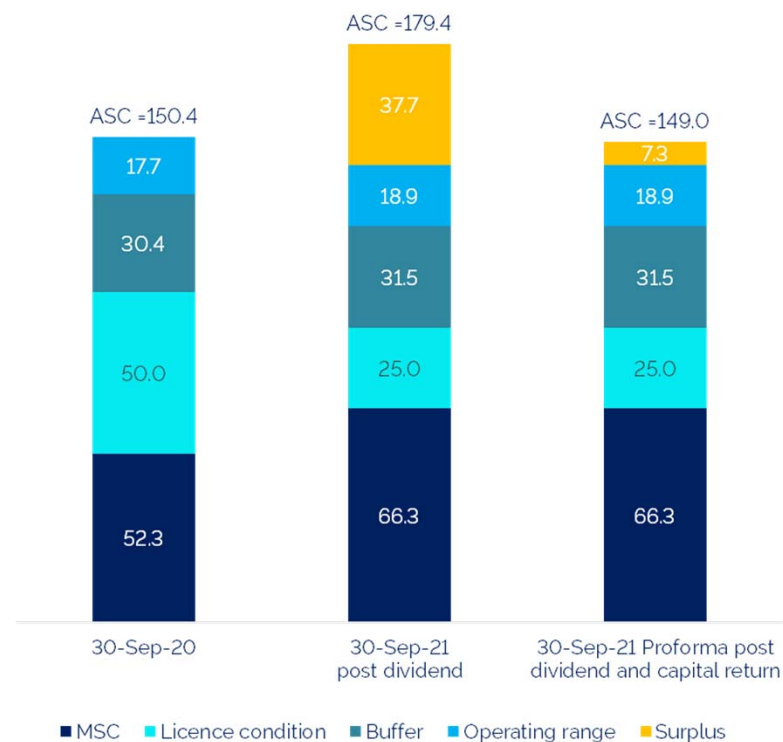


Aggregate applies to large events (excl. NZ earthquake) from \$2m to \$10m, with an excess of \$20m

## Strong capital and solvency position

- Tower's solvency margin above minimum solvency capital (MSC) at the end of FY20 was \$98.1m, boosted by the settlement of the EQC Receivable. This has increased to \$113.2m at the end of FY21
- Before returning capital, Tower's (NZ parent) solvency margin is \$56.6m above its target solvency margin, and \$37.7m above the top of its target operating range. This equates to 271% of MSC
- Following the proposed \$30.4m return of capital by way of compulsory share buyback\*, Tower would be \$7.3m above the top of its target operating range, equating to 225% of MSC

**TOWER SOLVENCY - NZ PARENT (\$m)**



Note: 1: ASC = Actual solvency capital, MSC = Minimum solvency capital

\*Under a Court Scheme of Arrangement, subject to necessary approvals



## Dividend and proposed capital return

### Dividend

Amount	2.5 cents per share
Record date	19 January 2022
Payment date	2 February 2022

Tower's Dividend Policy is to pay 60% - 80% of cash earnings where prudent to do so.

Cash earnings is defined as reported profit adjusted for acquisition, amortisation and unusual items

### Proposed capital return by way of compulsory share buyback\*

Amount	1 share for every 10
Price per share	\$0.72
Notice of meeting	20 December 2021
Meeting (shareholder vote)	2 February 2022
IRD approval	9 February 2022
Final High Court orders	25 February 2022
Record date	4 March 2022
Payment date	18 March 2022

- Subject to IRD approval that the proposed return of capital is not in lieu of a dividend, shareholder approval and court approval.
- Indicative dates only.

## Expecting increased return to shareholders in FY22

	FY21 Actual	FY22 Guidance
<b>Underlying NPAT excluding large events</b>	\$30.8m	\$35.4m to \$39.4m
<b>Large events after tax (before tax)</b>	\$10m (\$13.9m)	\$14.4m (\$20m)
<b>Underlying NPAT</b>	\$20.8m	\$21m to \$25m
<b>Dividend</b>	5 cents per share	5 cents per share*

\* At current number of shares outstanding

While the \$20m excess of the aggregate is higher than Tower's long run large event average, the guidance has assumed Tower utilises the full excess. A lower large event outcome will result in higher expected underlying NPAT.

Tower has assumed inflation pressures continue throughout FY22.

Our plan for long  
term growth &  
improvement



# Clear strategy leverages our technology, customer and partnership advantages

## GROW AND INNOVATE



**Relentless focus  
on customer  
relationships**



**Leverage digital &  
data everywhere**



**Partner wherever  
possible**

## BUILD FINANCIAL STRENGTH & CAPABILITY



**Embracing agile  
culture & talent**



**Maintain a strong  
capital & solvency  
structure**

Our strategy for general insurance, personal lines and small-medium sized commercial segments.  
Focused on our core markets in New Zealand and the Pacific.

# Building deeper, more engaged customer relationships

INCREASE IN QUOTES

**31%**

vs FY20 for Tower Direct

TOWER QUICK QUOTE

**24%**

Conversion rate up from 18% prior to implementation



DIGITAL SALES

**59%**

Of Tower Direct GWP sold online +3% vs prior year

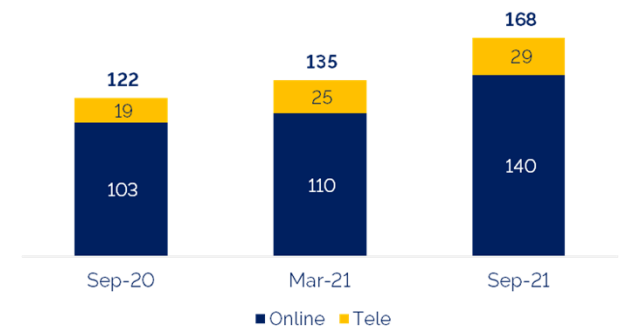
QUOTE TO BUY  
NET PROMOTER SCORE

**57%**

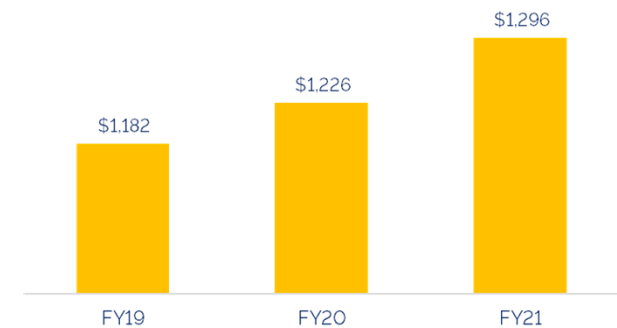
First time measured in FY21



TOWER DIRECT QUOTES ('000s)



NZ AVG GWP PER CUSTOMER





# Progressive product, pricing and underwriting

NEW & ENHANCED  
PRODUCTS DELIVERED

**Boat, EV, Travel,  
Pacific motor, home  
& contents,  
Sustainability  
benefit**

NEW & ENHANCED  
PRODUCTS PLANNED

**Pet, Renovation,  
Rural & SME**

GO CARMA CUSTOMERS  
HAVE DRIVEN

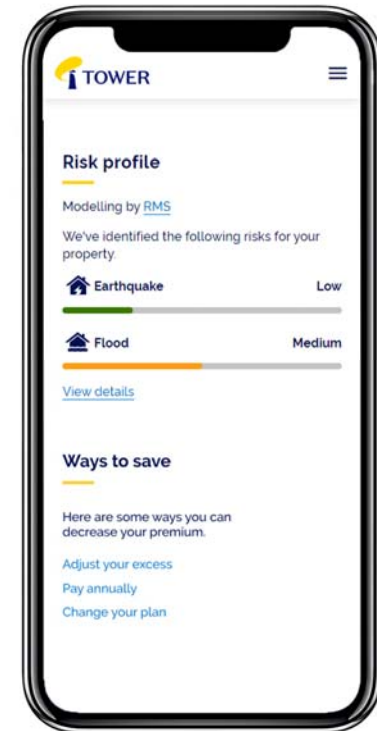
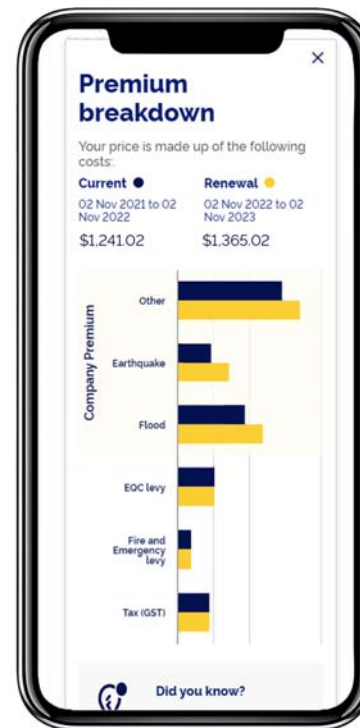
**10.5 million kms**

Since Dec '20 launch

OPEN AND TRANSPARENT  
PRICING

**Premium  
breakdowns & risk  
profiles**

Live from Nov '21



# Simplifying and digitising the Pacific

STREAMLINING NZ &  
PACIFIC OPERATIONS

**NPI**

100% shareholding  
from Dec '21

1<sup>ST</sup> ONLINE  
INSURANCE OFFERING  
IN THE PACIFIC

**Fiji, Vanuatu**

EIS live Fiji Dec '20,  
Vanuatu Dec '21

PACIFIC MER

**43%**

vs 51% prior year

NEW PRODUCTS IN  
DEVELOPMENT

**Parametric  
cover**

Planned for FY22



One core leading platform for personal customers across NZ  
& Pacific complete by end of FY22

# Partnering for new capabilities & winning experiences

PRODUCT  
PARTNERING

**Allianz**

Pet & travel

CONTINUOUSLY  
USING DATA

**1.7 billion data  
points**

From over 25  
external partners

TECHNOLOGY  
PARTNERING

**Microsoft, EIS,  
Friss, Amodo,  
Ushur**

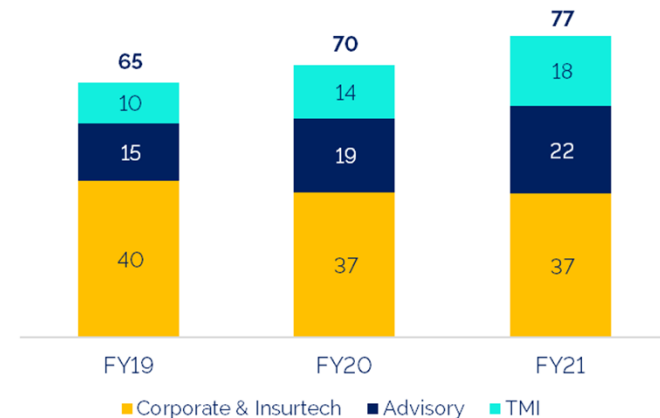
GWP FROM PARTNERS

**10%**

Increase on FY20



GWP FROM PARTNERS EXCL. ANZ† (\$m)



# Supporting our people and communities

REDUCTION IN ANNUAL  
CARBON EMISSIONS

**31%**

From 551 tCO<sub>2</sub>e in FY20 to  
378 tCO<sub>2</sub>e in FY21

SUPPORTING OUR  
COMMUNITIES

**Bachelor of  
Climate Change**

Partnerships, Scholarships &  
Internships

EMPLOYEE ENGAGEMENT

**77%**

Up 6% on FY20

CULTURAL DIVERSITY

**58%**

Of our workforce  
identify as non-European



Rainbow tick re-accreditation



Shine tick accreditation

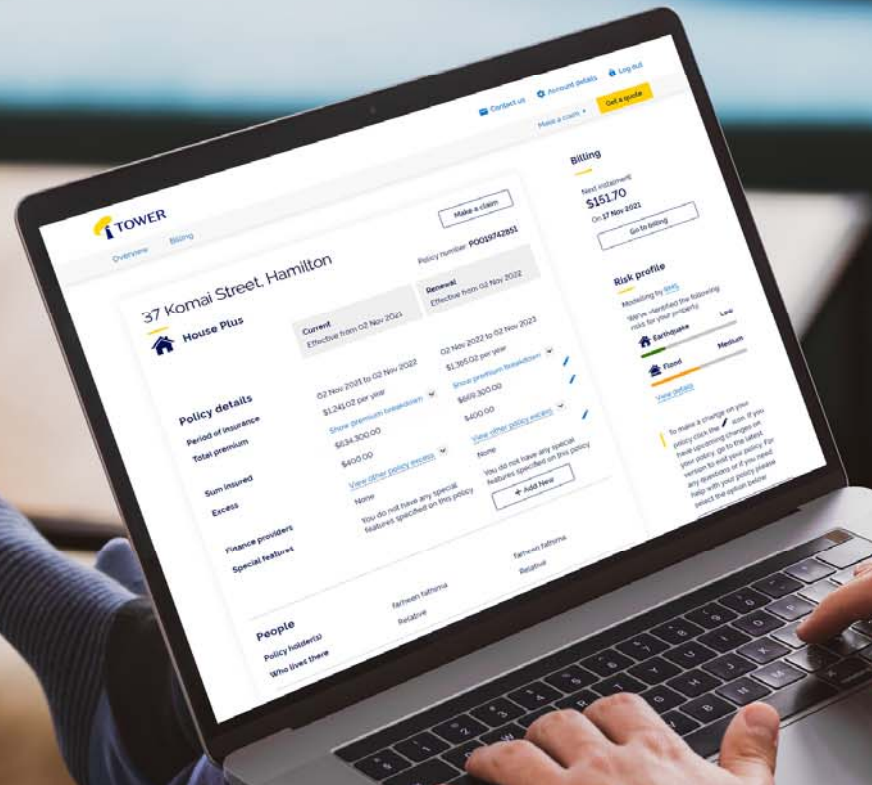
- Beginning our sustainability journey – ESG & carbon plan developed in 2021
- Auckland office 'Six Green Star' rating
- Supporting our people through multiple lockdowns in New Zealand and the Pacific
- 100% of staff with remote working capability
- Member of the Sustainable Business Council

## Well positioned to deliver dividends and growth

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- FY21 was a challenging year with actions taken to deliver improvements in FY22
- Well capitalised with strong balance sheet and solvency margins
- Delivered customer and premium growth while improving management expenses
- 5 cents full year dividend
- Proposed return of capital by way of compulsory share buyback\*
- Focus remains on driving shareholder value by accelerating growth and innovation
- Continue to invest in digital and data platform to drive efficiency and support growth

# Questions?



# Reconciliation between underlying profit after tax and reported profit after tax

\$ million	FY21 underlying profit	Non- underlying items (1)	Claims handling expenses (2)	Other items (3)	FY21 reported profit
Gross written premium	404.1	0.6		0.0	404.7
Gross earned premium	394.9	0.6		0.0	395.5
Reinsurance expense	(62.2)				(62.2)
<b>Net earned premium</b>	<b>332.7</b>	<b>0.6</b>	<b>0.0</b>	<b>0.0</b>	<b>333.3</b>
BAU claims expense	(166.8)	1.5	(25.1)	0.0	(190.4)
Large events	(13.9)				(13.9)
Management and sales expenses	(112.0)	(3.3)	25.1	0.4	(89.8)
Net commission expense	(11.3)				(11.3)
<b>Underwriting profit</b>	<b>28.7</b>	<b>(1.2)</b>	<b>0.0</b>	<b>0.4</b>	<b>28.0</b>
Net investment income	0.2	0.0			0.2
Other income	1.4	(0.7)		(0.4)	0.3
Underlying profit before tax	30.3				
Income tax expense	(9.5)	0.3			(9.1)
<b>Underlying profit after tax</b>	<b>20.8</b>				
Canterbury impact	0.9	(0.9)			
Insurance Faces decommissioning	(0.7)	0.7			
IAS 38 SaaS impact	(1.6)	1.6			
Other non-underlying costs	(0.1)	0.1			
<b>Reported profit after tax</b>	<b>19.3</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>19.3</b>

- (1) Non-underlying items include net impact of Canterbury earthquake valuation update and part release of the additional Canterbury earthquake risk margin release, write off of Insurance Faces insurance system balances, IAS38 interpretation on SaaS capitalisation written off to profit and loss, release of customer remediation provision treated as non-underlying, and the net costs associated with moving the corporate office in Auckland
- (2) Reclassification of claims handling expenses from management expenses to net claims expense
- (3) Reclassification of foreign exchange movements to management and sales expenses

## Underlying and reported profit:

- "Underlying profit" does not have a standardised meaning under Generally Accepted Accounting Practice (GAAP). Consequently it may not be comparable to similar measures presented by other reporting entities and is not subject to audit or independent review
- Tower uses underlying profit as an internal reporting measure as management believes it provides a better measure of Tower's underlying performance than reported profit, as it excludes large or non-recurring items that may obscure trends in Tower's underlying performance, and is useful to investors as it makes it easier to compare Tower's financial performance between periods
- Tower has applied a consistent approach to measuring underlying profit in the current and comparative periods. Note: there has been minor reclassification between management expenses and "other income and expenses" in the comparative period
- "Reported profit after tax" is calculated and presented in accordance with GAAP and is taken from Tower Limited's financial statements for the year ended 30 September 2021
- Prior period restated - in April 2021 the IFRS Interpretations Committee (IFRIC) issued an agenda decision 'Configuration or Customisation Costs in a Cloud Computing Arrangement (NZ IAS 38 Intangible Assets)'. This decision resulted in Tower expensing previously capitalized assets which has been treated as a non-underlying expense in FY20

# Disclaimer

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