TOWER Limited

Leading light

Half year report 2015



Investment highlights

For the **half year** ended 31 March 2015

Half year **reported loss**

after tax

Underlying half year **eps**^{*}

1 O cents per share

Underlying half year **profit**

\$**17.5**m

after tax

Half year **dividend**

3.5 cents per

On market **buy back** of up to

\$**34**m

General Insurance **solvency**³

\$**51**m

above regulatory minimum

1. Underlying profit excludes \$22.6m impact of Canterbury provision increases and profit from disposal of subsidiaries of \$0.216m.

2. Underlying profit (see note 1. above) divided by the number of shares on issue.

3. Solvency margin is \$100.6m, reduced by the Reserve Bank of New Zealand requirement of \$50m.

TOWER Limited report

For the **half year** ended 31 March 2015

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Significant progress delivering growth

TOWER made significant progress on the implementation of its general insurance strategy in New Zealand and the Pacific during the six months ended 31 March 2015.

TOWER's vision is to deliver attractive shareholder returns by growing a general insurance business that is a leading light in New Zealand and the Pacific.

TOWER reported a net loss of \$4.9 million driven by the increased provisions of \$22.6 million after tax for costs associated with the Canterbury earthquake events. TOWER's underlying net profit after tax (NPAT) was \$17.5 million, significant improvement on HY14.

The significant growth in underlying profit reflects the industry backdrop of rising premiums, a benign claims environment and the benefits of the company's strategy of being a leading light in general insurance.

The improvement in underlying general insurance profit is pleasing and reflects an unwavering focus on our three key strategic pillars of financial performance, customer satisfaction and staff engagement.

TOWER has continued its transformation over the half to deliver its growth strategy: transforming customer interactions to drive revenue and efficiency, building digital capability to take TOWER into new distribution channels and increasing its very strong position in the Pacific Rim.

Sound capital management remains a priority for the TOWER Board.

In line with TOWER's policy of paying 90-100% of underlying full year NPAT in dividends, the Board was pleased to announce a half-year dividend of 8.5 cents per share unimputed, an increase of 30.8% on the prior corresponding period.

In announcing the results for HY15 TOWER confirmed its intention to conduct an on market share buy back of up to \$34 million, or up to 10% of TOWER's issued capital.

Finally, we welcome a new director to the TOWER Board. Warren Lee took up his role as an independent non-executive director of TOWER Limited on 26 May 2015. Warren is Chief Executive Officer of the Victorian Funds Management Corporation. He was previously Chief Executive Officer, Australia and New Zealand for AXA Asia Pacific Holdings Limited.

His extensive experience and long record of leadership in the international insurance industry will enhance the TOWER Board's strong existing capabilities.

Half year highlights and achievements:

- Gross Written Premium increased 4.9% to \$145.9 million, aided by rate increases in New Zealand and policy growth in the Pacific
- Reported net loss after tax of \$4.9 million after additional Canterbury provisions



- Underlying General Insurance net profit increased 36.4% to \$17.9 million,¹ supported by premium growth, investment earnings, cost control and a benign claims environment
- Underlying Pacific net profit after tax increased 86.9% to \$5.1 million, assisted by strong policy and premium growth and a reduced loss ratio
- Expanded distribution alliances in New Zealand and the Pacific
- Significant investment in digital capabilities and direct distribution platforms
- Strong progress on Canterbury rebuild with 94% of claims (by volume) and 84% (by value) now settled and closed; on track to exceed 95% by end of calendar year 2015
- Increased certainty in Canterbury with increased reinsurance protection and provisions for claims
- Claims provisions for Canterbury increased by \$31.4 million, which has an after tax impact of \$22.6 million
- Strong solvency maintained with \$51 million in capital above regulatory minimum requirements
- Underlying EPS of 10.0 cents, reflects strength of new, focused operating structure

- Half year dividend 8.5 cps (unimputed), up 30.8% from HY2014
- Capital return of up to \$34 million now confirmed

"Sound capital management remains a priority for the TOWER Board."

Michael Stiassny Chairman



Underlying profit excludes \$22.6m impact of Canterbury provisions. The loss for General Insurance for the 2015 half year was \$4.7m.

Building shareholder value

TOWER continued its transformation in HY15. The strong growth in underlying net profit reflects the benefits of the company's focus on general insurance.

TOWER reported a net loss of \$4.9 million as a result of the increased provisions for Canterbury (\$22.6 million post tax). Underlying profit was \$17.5 million.

Rising premiums, stabilising reinsurance costs, favourable weather, Pacific policy growth and prudent capital management have supported the strong underlying performance.

Reflecting more benign weather, the claims ratio across New Zealand and the Pacific improved to 44.5%, down from 50.4% in HY2014. The combined ratio improved to 84.2%.

The Board announced a half-year dividend of 8.5 cents per share unimputed, compared to 6.5 cents unimputed in the previous year, and remains committed to a 90 – 100% payout ratio over the full year.

The half-year dividend will be paid on Tuesday 30 June 2015 to shareholders on the register on Friday 12 June 2015.

TOWER confirmed that it intends to undertake an on market share buy back of up to \$34 million, and expected to commence following announcement of these financial results.

Performance

The Group's reported net loss after tax of \$4.9 million was impacted by additional provisions for Canterbury claims costs. TOWER determined it was prudent to increase provisions by \$31.4 million, which has an after tax impact of \$22.6 million. TOWER Group underlying net profit (excluding impacts of Canterbury provision increases and discontinued business items) was \$17.5 million in HY2015. With TOWER's financial statements now reflecting its new corporate structure as a pure general insurer, underlying profit in the General Insurance business approximates the TOWER Group underlying profit. General Insurance underlying profit of \$17.9 million represents an increase of 36.4% on the previous corresponding period.

General insurance

Financial performance

In General Insurance, Gross Written Premium (GWP) increased 4.9% on HY2014 to \$145.9 million, supported by rate growth in New Zealand and policy growth in the Pacific. Gross earned premiums rose 8.2% to \$150.4 million. Reinsurance costs increased 9.4% and Net earned premiums (NEP) increased 7.9% on HY2014 to \$124.7 million.

Claims were \$55.5 million in HY2015, down from \$58.2 million in the previous corresponding period. This fall was driven by the absence of any large weather events, compared to \$4.8 million in large claims costs in HY2014. The claims ratio improved to 44.5% from 50.4% in HY2014. Premium growth, higher investment income and lower claims lifted General insurance underlying profit after tax by 36.4% to \$17.9 million.

Strong balance sheet

The underlying expense ratio (management expenses and commissions to NEP) increased to 39.7% in the half, up from 37.9% in HY2014. TOWER invested in brand, new products and systems to support the business for future growth. The reallocation of expenses due to the new corporate structure also resulted in increased expenses in General Insurance. TOWER continues to focus on staff engagement, efficiency and the appropriate cost structure to support future growth. The Pacific Rim represents a key growth engine for TOWER accounting for 20% of GWP and 28% of General Insurance underlying NPAT in HY2015. In local currencies, GWP increased across the region, and Pacific GWP as a whole grew 14% to \$28.5 million. Underlying net profit after tax from the Pacific increased 86.9% to \$5.1 million, driven by a benign claims environment across a number of Pacific territories, as well as growth in policies and premiums.

General Insurance	HY15	HY14	Movement \$	Movement %
Gross earned premiums	150.4	139.1	11.3	8.2
Reinsurance	(25.7)	(23.5)	(2.2)	9.4
Net premiums	124.7	115.6	9.1	7.9
Net incurred claims	(55.5)	(53.4)	(2.1)	3.9
Large claim events ¹	-	(4.8)	4.8	(100.0)
Management and sales expenses	(49.5)	(43.9)	(5.5)	12.6
Underwriting profit	19.8	13.5	6.2	46.1
Investment revenue	6.3	5.7	0.6	10.4
Underlying Profit before tax	26.0	19.2	6.8	35.5
Income tax expense	(8.2)	(6.1)	(2.1)	33.6
Underlying Profit after tax ²	17.9	13.1	4.8	36.4
Impact of Canterbury earthquakes ³	(22.6)	(O.1)	(22.5)	
Revaluation of Australia liabilities and FX loss ⁴	-	(1.2)	1.2	
Profit (loss) after tax	(4.7)	11.8	(16.5)	

 Large claim events are those greater than \$1m. 2014 large claim events were due to the storms within New Zealand.
 Underlying NPAT excludes the impact of Canterbury provision increases and profits from disposal of subsidiaries
 In the Group financial statements the impacts of the Canterbury earthquakes are accounted for as part of Claims expense and the tax impact thereon, and include both an increase in the provision for claims and actual claims expense, plus an amount associated with reinsurance.

4. In the Group financial statements the revaluation and FX impact of Australia liabilities are accounted for as part of (loss)/ profit from discontinued operations.

Papua New Guinea and Fiji together contributed 64% of Pacific GWP in the half, with the TOWER brand "National Pacific Insurance" operating in Samoa, American Samoa and Tonga representing a further 24% of GWP. Operations in the Cook Islands and Solomon Islands contributed the remaining 12%.

Investment revenue increased 10.4% to \$6.3 million in HY2015, primarily due to increased cash balances and investment assets held by General Insurance.

TOWER holds an estimated 4.7% share of the New Zealand general insurance market, placing it fourth in the market. In personal lines, TOWER has shares of 10.8% in Home, 9.8% in Contents and 6.3% in Motor lines. This highlights the substantial growth opportunity available to TOWER in the New Zealand market.

The Company has nearly 488,000 policies and more than 270,000 customers in New Zealand and seven Pacific territories through its own direct business and its alliance partnerships.

General Insurance priorities during the half

TOWER's General Insurance strategy focuses on the strategic pillars of customer satisfaction, staff engagement and financial performance to become the leading light in the New Zealand and Pacific general insurance market and drive shareholder value. In HY2015, TOWER's operational priorities were:

- Enhancing digital capability to support growth in new distribution channels;
- Transforming customer interactions through system and process upgrades to deliver improved customer service, efficiency and revenue;

- Further work on branding and customer innovation; and
- Growing in both established and new Pacific Rim markets.

New distribution channels for insurance products

With around 98% of all TOWER direct sales currently made over the phone, TOWER recognises the significant opportunity to improve sales, service and its cost position by using technology to engage both direct and alliance customers.

TOWER is seeking to use technology through the entire policy sales and service cycle to better meet customer needs such as convenience, cost and service.

As part of the investment in technology and processes TOWER has brought forward the completion of its new core system, Insurance Faces. In addition, TOWER has invested in a new digital content management platform to enhance the customer experience and improve design flexibility.

Alliances are an important part of TOWER's growth strategy and a key source of revenue.

In HY2015, TOWER announced an important new partner to its alliance network with an agreement with New Zealand's leading online marketplace, Trade Me.

Transforming customer interactions to drive returns

Customer retention and growth has been a pillar of the General Insurance growth strategy. With its renewed focus on customer service in the past 18 months, TOWER has seen very encouraging improvements in key indicators of customer satisfaction. An important element of its approach is the introduction of a new service model that reflects the full customer experience and offers both service and sales functions from a single interaction. Merging sales and service provides the opportunity to significantly improve service levels, revenue and operating efficiency.

Unlocking brand potential through product innovation

In 2014, TOWER strengthened its brand as a trusted New Zealand-owned alternative to the major foreign-owned insurers through a television and print advertising campaign. The launch of the SmartDriver app generated a lot of interest among consumers and, as we were first mover on introducing "telematics" in Australasia, established the TOWER brand as dynamic and innovative.

The app allows TOWER to more efficiently price risk based on the driving data generated from customers. Recent updates to the app have introduced more "gaming" elements designed to further stimulate user engagement.

TOWER also enhanced its reputation as an insurer that listens to customers with the launch of its full replacement fire benefit for New Zealand homes. This new insurance product has been strongly recognised in key brand measures.

In line with the repositioning of the brand and improving its online presence TOWER launched a new corporate website in 2014 and in HY2015 upgraded the site to be fully mobile-friendly.

Growth in Pacific Rim markets

TOWER has been operating in the Pacific region for 140 years. The success of the Pacific business depends, in part, on the commitment of key employees. Customer satisfaction is high in the Pacific, with NPS in the high 40s and local staff highly engaged.

During the half year, TOWER made further investments in technology and brand in its established Pacific Island markets.

With appropriate risk management and underwriting policies in place, TOWER continues to work on opportunities to expand its presence in the Pacific. TOWER is currently focusing on establishing operations in Vanuatu and is exploring other market opportunities. A number of markets are currently underdeveloped and offer excellent long-term growth prospects in line with those offered within the other economies of the region. TOWER expects to launch in Vanuatu towards the end of the year.

Update on Canterbury earthquake rebuild

The resolution of Canterbury claims remains a key operational priority for TOWER with a dedicated team committed to providing certainty for customers and shareholders as they work through outstanding claims. TOWER remains on track to exceed 95% completion by the end of 2015.

Since 2013, TOWER has utilised an actuarial adviser, Deloitte, to project claims costs from the remaining Canterbury earthquake rebuild on a quarterly basis. Following receipt of an actuarial report in April from Deloitte, the TOWER Board determined that provisions should be prudently increased by \$31.4 million (before tax) to cover the projected cost of the claims. This has resulted in a \$22.6 million after tax profit impact on TOWER's HY2015 accounts.

The main drivers of the increase in projected claim costs were:

- Greater clarity on the allocation of claims costs between TOWER and its reinsurers for each Canterbury earthquake event;
- An expected increase in claims costs associated with multi-unit dwellings impacted by the earthquakes;
- The anticipated impact of the industrywide increase in repair and rebuild costs and time delays affecting all outstanding construction work.

Risk management and reinsurance

As reinsurance rates have eased over the past 12-24 months, TOWER has taken the opportunity to increase its level of reinsurance cover, while maintaining the overall dollar value of reinsurance spending.

TOWER's Catastrophe Reinsurance programme has been expanded to \$682 million, reflecting the growth in TOWER's house and contents portfolios. There has been no change in reinsurance premiums as a result of the new full replacement for fire insurance.

TOWER purchased new reinsurance cover in October 2014 for large events (excluding New Zealand earthquakes). This cover has been designed to protect against the significant storms that have impacted the business over the past 2-3 years. The reinsurance provides cover for events between \$1 million and \$5 million, while \$10 million of cover is provided after an aggregate \$5 million of large events has occurred. TOWER purchased an Adverse Development Cover (ADC) to protect its exposure to further increases in costs related to the Canterbury earthquakes, particularly the February 2011 event. The ADC covers 87.5% of the costs for this event between \$388 million and \$438 million. At the time the policy was written, the \$388 million was \$30 million above the provision levels held for the February 2011 event.

Balance sheet and solvency

TOWER remains highly solvent with capital well above minimum regulatory requirements at the business and corporate level. TOWER has \$51 million of excess solvency above minimum regulatory requirements in the Insurance company and holds \$63 million of cash in the corporate entities.

Capital management

Total Shareholder Return remained strong in the first half with solid share price performance and higher dividend payments to shareholders.

Capital management and shareholder returns remain priorities for TOWER. In addition to paying healthy dividends, the Company has returned \$177 million of capital over the past three years and remains committed to returning additional capital to shareholders where possible.

Strategy

TOWER aims to deliver attractive shareholder returns by growing a general insurance business that is seen as a leading light in New Zealand and the Pacific Islands.

The Company has established three pillars of its General Insurance strategy: staff engagement, customer satisfaction and financial performance.

TOWER's long-term approach to building shareholder returns seeks to:

- Drive growth and efficiency through staff engagement;
- Unlock significant brand potential through customer service;
- Maintain a leading position in attractive Pacific markets;
- · Deliver financial performance;
- Efficiently manage risk and capital for better returns; and
- Capitalise on the opportunities presented by industry consolidation including new and enhanced alliances.

In support of this strategy current operational and strategic priorities are:

Unlocking brand potential

- Investment in systems and processes to build a strong and efficient platform for growing the business;
- Build a strong performance culture and improve staff engagement;
- Deliver better cost ratios over the medium term;
- Continue to build service and sales culture to drive revenue while lifting Net Promoter Score; and



"TOWER aims to deliver attractive shareholder returns by growing a general insurance business that is seen as a **leading light in New Zealand and the Pacific Islands."**

David Hancock Chief Executive Officer

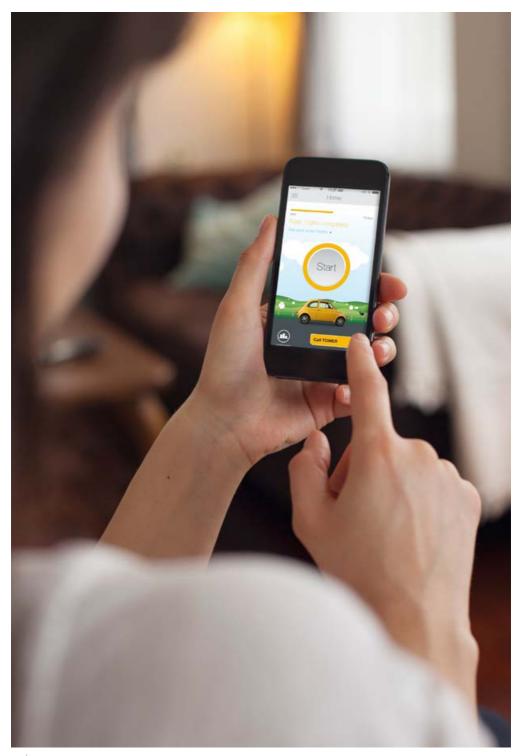
• Consolidate on our efforts in product innovation and the next phase of the brand campaign to differentiate the offer.

Alliance growth opportunity

- · Enhance digital delivery capability;
- Focus on new initiatives via digital platforms; and
- Offer a trusted alternative to the major insurers.

Leadership in Pacific Rim markets

- Continue campaign to grow market share in established Pacific markets;
- Consolidate and grow new alliances in key markets; and
- Continue preparation to enter new locations and broaden growth options.



Outlook

Efficient growth

Industry

For the industry, growth in reinsurance costs is easing somewhat following the Canterbury earthquakes but other costs continue to increase, placing upward pressure on premiums. These costs include:

- Compliance costs and increased capital requirements
- Adverse weather events, which have
 increased industry costs in recent years
- Increased Canterbury rebuild costs

Technological change will continue to have a significant impact on the industry with major opportunities to improve service, offer and costs. The development of a wider range of potential distribution channels, particularly digital, challenges traditional channels bringing both risks and opportunities for growth. Customers remained highly informed and mobile and price and service remain key drivers of choice.

Industry consolidation is expected to remain a trend in New Zealand insurance, which provides opportunities for shareholder value to be recognised and enhanced. TOWER will look to participate in this trend where there is benefit to shareholders.

Michael Stiassny Chairman



David Hancock Chief Executive Officer

TOWER

The immediate future will see us focusing on these objectives:

- Grow New Zealand GWP, focus on customer service and cost control
- Pursue further growth in Pacific Rim markets
- Enhance operating platform and digital capabilities to support growth
- Exceed 95% completion on Canterbury rebuild by end of 2015
- Maintain strong solvency, pay healthy dividends and where possible return surplus capital. Buy back of up to \$34 million confirmed
- Dividends 90-100% of underlying full year NPAT

TOWER Limited Interim Financial Statements and Independent Review Report

For the half year ended 31 March 2015

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Independent Review Report

TOWER Limited Consolidated **Income** Statement

For the **half year** ended 31 March 2015

	Half year ended		
Note	31 March 2015 Unaudited \$000	31 March 2014 Unaudited \$000	
Revenue			
Premium revenue from insurance contracts 3	150,398	139,153	
Less: Outwards reinsurance expense 3	(25,664)	(23,533)	
Net premium revenue	124,734	115,620	
Investment revenue 4	7,667	7,939	
Fee and other revenue	1,450	1,299	
Net operating revenue	133,851	124,858	
Expenses			
Claims expense	107.376	98,209	
Less: Reinsurance recoveries revenue	(8,791)	(29,135)	
Net claims expense	98,585	69,074	
Management and sales expenses	41,097	36,608	
Net claims and operating expenses	139,682	105,682	
Financing costs	-	3,894	
Total expenses	139,682	109,576	
(Loss) profit attributed to shareholders before taxation	(5,831)	15,282	
Tax expense attributed to shareholders' profits	743	(5,257)	
(Loss) profit for the half year from continuing operations	(5,088)	10,025	
	(0,000)	10,020	
Profit for the half year from discontinued operations 14	_	2.519	
Profit from disposal of subsidiaries 14	216	594	
(Loss) profit for the half year	(4,872)	13.138	
(Loss) profit attributed to:			
Shareholders	(5,262)	12,930	
Non-controlling interest	390	208	
	(4,872)	13,138	
Basic and diluted (loss) earnings per share for continuing operations (cents)	(2.99)	4.96	
Basic and diluted earnings per share for discontinued operations (cents)	0.12	1.57	

TOWER Limited Consolidated Statement of **Comprehensive Income** For the **half year** ended 31 March 2015

	Half yea	r ended
Note	31 March 2015 Unaudited \$000	31 March 2014 Unaudited \$000
(Loss) profit for the half year	(4,872)	13,138
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Currency translation differences	(275)	(1,455)
Other comprehensive loss net of taxation	(275)	(1,455)
Total comprehensive (loss) income for the half year	(5,147)	11,683
Total comprehensive (loss) income attributed to:		
Shareholders	(5,723)	11,698
Non-controlling interest	576	(15)
	(5,147)	11,683
Total comprehensive (loss) income attributed to equity shareholders arises from:		
Continuing operations	(5,363)	8,570
Discontinued operations/disposal groups held for sale 14	216	3,113
	(5,147)	11,683

The consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

TOWER Limited Consolidated **Balance Sheet** As at 31 March 2015

Note	31 March 2015 Unaudited \$000	30 September 2014 Audited \$000
Assets		
Cash and cash equivalents	152,333	168,062
Receivables	251,379	316,295
Financial assets at fair value through profit or loss 8	215,729	212,407
Property, plant and equipment	10,450	6,285
Current tax assets	11,410	12,733
Deferred acquisition costs	19,903	20,028
Deferred tax assets	23,331	19,303
Intangible assets	42,697	35,483
Total Assets	727,232	790,596
Liabilities		
Payables	51,387	46,157
Current tax liabilities	631	371
Provisions 5	4,570	7,308
Derivative financial liabilities	79	46
Insurance liabilities	357,715	404,572
Deferred tax liabilities	6,437	6,133
Total Liabilities	420,819	464,587
Net Assets	306,413	326,009
Equity		
Contributed equity	396,737	396,819
Accumulated profit	23,045	42,174
Reserves	(115,044)	(114,583)
Total equity attributed to shareholders	304,738	324,410
Non-controlling interest	1,675	1,599
Total Equity	306,413	326,009

The interim financial statements were approved for issue by the Board on 25 May 2015.

M.Q.

Michael P Stiassny Chairman

John Stat

Graham R Stuart Director

TOWER Limited Consolidated Statement of **Changes in Equity** For the **half year** ended 31 March 2015

		A	ttributed to s (unaud			
	Contributed equity \$000	Accumulated profit (loss) \$000	Reserves \$000	Total \$000	Non- controlling interest \$000	Total equity \$000
Half year ended 31 March 2015						
At the beginning of the half year	396,819	42,174	(114,583)	324,410	1,599	326,009
Comprehensive income for the period						
(Loss) profit for the half year	-	(5,262)	-	(5,262)	390	(4,872)
Other comprehensive income						
Currency translation differences	-	-	(461)	(461)	186	(275)
Total comprehensive (loss) income for the period	-	(5,262)	(461)	(5,723)	576	(5,147)
Transactions with shareholders						
Capital repayment plan	(82)	-	-	(82)	-	(82)
Dividends paid	-	(14,060)	-	(14,060)	(500)	(14,560)
Other	-	193	-	193	-	193
Total transactions with shareholders	(82)	(13,867)	-	(13,949)	(500)	(14,449)
At the end of the half year	396,737	23,045	(115,044)	304,738	1,675	306,413

The consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

TOWER Limited Consolidated Statement of **Changes in Equity** For the **half year** ended 31 March 2015

	Attributed to shareholders (unaudited)					
	Contributed equity \$000	Accumulated profit (loss) \$000	Reserves \$000	Total \$000	Non- controlling interest \$000	Total equity \$000
Half year ended 31 March 2014						
At the beginning of the half year	453,935	42,983	(117,103)	379,815	1,262	381,077
Comprehensive income for the period						
Profit for the half year	-	12,930	-	12,930	208	13,138
Other comprehensive income						
Currency translation differences	-	-	(1,232)	(1,232)	(223)	(1,455)
Total comprehensive income (loss) for the period	-	12,930	(1,232)	11,698	(15)	11,683
Transactions with shareholders						
Capital repayment plan	(52,577)	-	-	(52,577)	-	(52,577)
Movement in share based						
payment reserve	-	44	(44)	-	-	-
Dividends paid	-	(12,432)	-	(12,432)	(146)	(12,578)
Other	-	(10)	-	(10)	-	(10)
Total transactions with shareholders	(52,577)	(12,398)	(44)	(65,019)	(146)	(65,165)
At the end of the half year	401,358	43,515	(118,379)	326,494	1,101	327,595

TOWER Limited Consolidated Statement of **Cash Flows** For the **half year** ended 31 March 2015

	Half year ended		
Note	31 March 2015 Unaudited \$000	31 March 2014 Unaudited \$000	
Cash flows from operating activities			
Premiums received	148.831	146.591	
Interest received	8,060	19,520	
Dividends received	5	734	
Investment (expense) income	(1,010)	10,618	
Income from operating activities	1,450	1,306	
Reinsurance received	73,166	85,838	
Reinsurance paid	(24,575)	(28,863)	
Claims expenses	(151,059)	(180,432)	
Payments to suppliers and employees	(38,868)	(39,401)	
Interest paid	-	(3,475)	
Income tax paid	(1,002)	(2,221)	
Net cash inflow from operating activities 9	14,998	10,215	
Cash flows from investing activities			
Net receipts from financial assets	(2,656)	10,810	
Receipt for disposal of property, plant and equipment and intangible assets	13	(10)	
Payments for purchase of property, plant and equipment and intangible assets	(13,178)	(3,120)	
Proceeds from sale of subsidiaries	-	(15,078)	
Net cash (outflow) from investing activities	(15,821)	(7,398)	
Cash flows from financing activities			
Capital repayment	(82)	(52,577)	
Dividends paid	(14,060)	(12,441)	
Payment of non-controlling interest dividends	(500)	(146)	
Net cash (outflow) from financing activities	(14,642)	(65,164)	
Net (decrease) in cash and cash equivalents	(15,465)	(62,347)	
Foreign exchange movement in cash	(264)	(1,058)	
Cash and cash equivalents at beginning of half year	168,062	341,624	
Cash classified as held for sale at beginning of half year	-	8,399	
Cash classifed as held for sale at the end of half year	-	(8,656)	
Cash and cash equivalents at end of half year	152,333	277,962	

The consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1. Summary of significant accounting policies

Entities reporting

The interim financial statements presented are those of TOWER Limited (the Company) and its subsidiaries (the Group).

Statutory base

TOWER Limited is a company domiciled in New Zealand, registered under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. The Company is an issuer under the Financial Reporting Act 2013.

Basis of preparation

The interim financial statements of the Group have been prepared in accordance with Generally Accepted Accounting Practice in New Zealand (NZ GAAP). They comply with NZ IAS 34 Interim Financial Reporting and IAS 34 Interim Financial Reporting and consequently, include a lower level of disclosure than is required for full financial statements.

The interim financial statements of the Group have been prepared in accordance with the requirements of the NZX Main Board Listing Rules. TOWER Limited is registered under the Companies Act 1993 and is an FMC Reporting Entity under part 7 of the Financial Markets Conduct Act 2013.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2014, which were prepared in accordance with International Financial Reporting Standards, and New Zealand Equivalents to International Financial Reporting Standards.

The interim financial statements for the six months ended 31 March 2015 are unaudited.

Accounting policies

The principal accounting policies adopted in the preparation of these interim financial statements are consistent with those of the audited annual financial statements for the year ended 30 September 2014.

Cash flows

The consolidated statement of cash flows presents the net changes in cash flow for financial assets. TOWER considers that knowledge of gross receipts and payments is not essential to understanding certain activities of TOWER. This is based on either the turnover of these items is quick, the amounts are large, and the maturities are short or the value of the sales are immaterial.

2. Impact of amendments to NZ IFRS

The application of new or amended accounting standards as of 1 October 2014 has not had a material impact on the financial statements.

3. Premium revenue

	Half year ended		
	31 March 2015 Unaudited \$000	31 March 2014 Unaudited \$000	
Gross written premiums	145,884	139,212	
Movement in gross unearned premiums	4,514	(59)	
Premium revenue earned from insurance contracts	150,398	139,153	
Less: Outwards reinsurance expense	(25,664)	(23,533)	
Total net premium revenue	124,734	115,620	

4. Investment revenue

	Halfyea	r ended
	31 March 2015 Unaudited \$000	31 March 2014 Unaudited \$000
Fixed interest securities		
Interest income	8,060	8,829
Net realised (loss)	(883)	(1,830)
Net unrealised gain	645	919
	7,822	7,918
Equity securities		
Dividend income	5	14
	5	14
Property securities		
Property income	-	4
Net realised gain	-	412
Net unrealised (loss)		(401)
	-	15
Derivatives		
Net realised (loss) gain	(127)	114
Net unrealised (loss)	(33)	(122)
	(160)	(8)
Total investment revenue		
Total investment revenue	8,065	8,847
Total realised (loss)	(1,010)	(1,304)
Total unrealised gain	612	396
	7,667	7,939

The gains and losses in these categories have been generated by financial assets designated on initial recognition at fair value through profit or loss. Other investment gains and losses have been generated by derivative financial assets and financial liabilities classified as held for trading at fair value through profit or loss.

5. Provisions

	31 March 2015 Unaudited \$000	30 September 2014 Audited \$000
Business separation	496	3,028
Employee benefits	4,074	4,280
Total provisions	4,570	7,308
Analysed as:		
Current	4,570	7,308
	4,570	7,308

Business separation	Health \$000	Investments \$000	Non- participating life \$000	Participating life \$000	Total \$000
Opening balance at 1 October 2014	_	13	984	2,031	3,028
Additions	-	_	60	1	61
Amount utilised in the period	-	-	(694)	(896)	(1,590)
Reversal of unused amount	-	(13)	(130)	(860)	(1,003)
Closing balance at 31 March 2015 (Unaudited)	_	_	220	276	496
Opening balance at 1 October 2013	372	1,444	4,561	2,880	9,257
Additions	-	-	-	835	835
Amount utilised in the period	(226)	(1,102)	(3,444)	(1,289)	(6,061)
Reversal of unused amount	(146)	(329)	(133)	(395)	(1,003)
Closing balance at 30 September 2014 (Audited)	-	13	984	2,031	3,028

Provision has been utilised during the period ended 31 March 2015, for legal, consultancy and IT related costs.

Employee benefits

Employee benefits include provisions for holiday pay and long service leave.

6. Segmental reporting

	New Zealand General Insurance Unaudited \$000	Pacific General Insurance Unaudited \$000	Other (Holding companies and eliminations) Unaudited \$000	Total Unaudited \$000
Half year ended 31 March 2015				
Revenue				
Revenue – external	108,675	24,135	1,041	133,851
Revenue – internal	1,776	(1,776)	-	-
Net operating revenue	110,451	22,359	1,041	133,851
(Loss) profit before income tax	(11,628)	6,290	(493)	(5,831)
Income tax (expense) credit ¹	3,602	(2,993)	134	743
(Loss) profit for the half year from continuing operations	(8,026)	3,297	(359)	(5,088)
Half year ended 31 March 2014				
Revenue	104102	10 705	1041	124.050
Revenue – external	104,192 104,192	18,725	1,941	124,858
Net operating revenue	104,192	18,725	1,941	124,858
Profit (loss) before income tax	14.098	5.150	(3,966)	15.282
Income tax (expense) credit ¹	(3,835)	(2,437)	1,015	(5,257)
Profit (loss) for the half year				
from continuing operations	10,263	2,713	(2,951)	10,025
Segment assets				
31 March 2015 (Unaudited)	552,192	87,265	87,775	727,232
30 September 2014 (Audited)	611,833	82,609	96,154	790,596
Segment liabilities	000 100	50.005	5.050	100.010
31 March 2015 (Unaudited)	363,128	52,335	5,356	420,819
30 September 2014 (Audited)	406,264	50,380	7,943	464,587

Note:

1 Tax expense of individual segments has been impacted by intercompany reclassifications which have been eliminated for management and segmental reporting. This has a nil impact on the Group.

6. Segmental reporting (continued)

Description of segments

Operating segments are based on assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other operating segments.

Management has determined operating segments are based on internal reporting reviewed by the Board of Directors (Chief Operating Decision Maker) for the purpose of making decisions on resource allocation and assessing performance.

New Zealand general insurance includes all fire and general insurance business written in New Zealand. Pacific general insurance includes all fire and general insurance business with customers in the Pacific Islands written by TOWER Insurance Limited subsidiaries and branch operations. Other includes head office expenses, financing costs and intra Group eliminations.

TOWER Group operates in two geographical segments, New Zealand and the Pacific region.

7. Net assets per share

	31 March 2015 Unaudited \$	30 September 2014 Audited \$
Net assets per share	1.75	1.85
Net tangible assets per share	1.40	1.58

Net assets per share represent the value of the Group's total net assets divided by the number of ordinary shares on issue at the period end. Net tangible assets per share represent the net assets per share adjusted for the effect of intangible assets and deferred tax balances. Assets from disposal groups are included in the calculation.

8. Fair values of assets and liabilities

Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. Refer below for details of valuation methods and assumptions used by TOWER for each category of financial assets and liabilities.

(i) Cash and cash equivalents

The carrying amount of cash and cash equivalents reasonably approximates its fair value.

(ii) Financial assets at fair value through profit or loss and held for trading

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in Level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in Level 2. The following fair value measurements are used:

- The fair value of fixed interest securities is based on the maturity profile and price/yield.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the balance sheet date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

If one or more of the significant inputs is not based on observable market data, the instrument is included in Level 3. At 31 March 2015, the level 3 category includes an investment in equity securities of \$1,787,000 (September 2014: \$1,835,000). This investment is in unlisted shares of a company which owns one building. The fair value is calculated based on the net assets of the property owning company from the most recently available financial information. The property is periodically independently valued.

(iii) Loans and receivables and other financial liabilities held at amortised cost

Carrying values of loans and receivables, adjusted for impairment values, and carrying values of other financial liabilities held at amortised cost reasonably approximate their fair values.

8. Fair values of assets and liabilities (continued)

(iv) Derivative financial liabilities and assets

The fair value of derivative financial liabilities and assets is determined by reference to market accepted valuation techniques using observable market inputs.

There have been no transfers between levels of the fair value hierarchy during the current financial period (September 2014: nil).

The following tables present the Group's assets categorised by fair value measurement hierarchy levels. There has been no designated financial liability held at fair value through the income statement (September 2014: nil).

Group	Total \$000	Level 1 \$000	Level 2 \$000	Level 3 \$000
As at 31 March 2015				
Assets				
Investment in equity securities	1,787	-	-	1,787
Investments in fixed Interest securities	213,908	-	213,908	-
Investments in property securities	34	-	34	-
Total financial assets	215,729	-	213,942	1,787
As at 30 September 2014				
Assets				
Investment in equity securities	1,835	-	-	1,835
Investments in fixed Interest securities	210,538	-	210,538	-
Investments in property securities	34	-	34	-
Total financial assets	212,407	-	210,572	1,835

The following table represents the changes in Level 3 instruments for the period ended 31 March 2015.

	Investment in equity securities		
	31 March 2015 Unaudited \$000	30 September 2014 Audited \$000	
Opening balance	1,835	1,685	
Foreign currency movement	(48)	150	
Closing balance	1,787	1,835	

8. Fair values of assets and liabilities (continued)

The following table shows the sensitivity of Level 3 measurements to reasonably possible favourable or unfavourable changes in assumptions used to determine the fair value of the financial asset. If the market value of the investment in equity securities were to change by +/- 10% the impact is outlined below:

	Amount \$000	Changes of 10%	Changes of (10%)
As at 31 March 2015 Investment in equity securities	1,787	179	(179)
As at 30 September 2014 Investment in equity securities	1,835	184	(184)

9. Note to consolidated statement of cash flows

	Half year ended		
	31 March 2015 Unaudited \$000	31 March 2014 Unaudited \$000	
Reconciliation of profit for the half year to net cash flows from operating activities			
Net profit after tax for the half year	(4,872)	13,138	
Add/(less) non-cash items			
Depreciation of property, plant and equipment	1,224	734	
Amortisation of intangible assets	577	493	
Change in insurance and life investment contract liabilities	-	(12,042)	
Unrealised (gain)/loss on financial assets	(612)	1,509	
Accrued interest on borrowings	-	(10)	
Gain on disposal of property, plant and equipment	(13)	-	
Increase/(decrease) in deferred tax	(3,724)	8,555	
Gross gain on sale of subsidiaries	-	(674)	
	(2,548)	(1,435)	
Add/(less) movements in working capital (excluding the effects of exchange differences on consolidation)			
Decrease in receivables	65,061	65,177	
Decrease in payables	(44,397)	(64,223)	
Decrease/(increase) in taxation	1,754	(2,870)	
	22,418	(1,916)	
Add other items classified as investing or financing activities			
Decrease in capitalised costs	-	428	
Net cash inflows/(outflows) from operating activities	14,998	10,215	

10. Distributions to shareholders

Dividend declared

On 27 November 2014 the Directors declared a final dividend for the 2014 financial year of 8 cents per share. The dividend was paid on 3 February 2015. The total amount paid was \$14,059,956. There were no imputation credits attached to the dividend and TOWER did not offer its Dividend Reinvestment Plan for this dividend.

11. Solvency requirements

Minimum solvency capital required to be retained to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 is shown below. Actual solvency capital exceeds the minimum requirements for TOWER Insurance Limited group by \$100.6 million (September 2014: 124.8 million).

	31 March 2015 \$000 Unaudited	30 September 2014 \$000 Audited
Actual Solvency Capital	171,476	199,448
Minimum Solvency Capital	70,838	74,640
Solvency Margin	100,638	124,808

On 22 August 2014 the Reserve Bank of New Zealand imposed a condition of license requirement for TOWER Insurance Limited to maintain a minimum solvency margin of \$50.0 million. The methodology and bases for determining the Solvency Margin are in accordance with the requirements of the Solvency Standard for Nonlife Insurance Business published by the Reserve Bank of New Zealand.

12. Impact of Canterbury earthquakes

As at 31 March 2015, TOWER has estimated gross ultimate incurred claims of \$748.4 million (30 September 2014: \$706.9 million) in respect of the 4 September 2010; 22 February 2011; 13 June 2011 and 23 December 2011 Canterbury earthquake events. The following table presents a summary of key information.

	31 March 2015 Unaudited \$000	30 September 2014 Audited \$000	31 March 2014 Unaudited \$000
Cumulative expenses associated with Canterbury earthquakes:			
Earthquakes claims estimate	(748,400)	(706,931)	(622,500)
Reinsurance recoveries	662,646	652,564	568,133
Claims expenses net of reinsurance recoveries revenue	(85,754)	(54,367)	(54,367)
Reinsurance expense	(20,220)	(20,220)	(20,220)
Income tax	30,353	21,565	21,565
Cumulative impact of Canterbury earthquakes after tax	(75,621)	(53,022)	(53,022)
Recognised in current period	(22,599)	(191)	(191)

12. Impact of Canterbury earthquakes (continued)

There remains considerable uncertainty surrounding the measurement of gross claims liabilities for the Canterbury earthquakes. This uncertainty arises from a number of factors including; longer than normal claims development periods; the allocation of claim costs between events; industry-wide building cost inflation; EQC recoveries and complexities associated with determining risk margin, discount rates and other key actuarial assumptions. Actuarial reviews undertaken at 31 March 2015 have highlighted that expected claims costs from the Canterbury earthquakes have increased in the six months post 30 September 2014 primarily due to:

- The anticipated impact of industry-wide increases in repair and rebuild costs and time delays affecting all construction work;
- · An increase in costs associated with settling complex claims for multi-unit dwellings; and
- Greater clarity of the apportionment of claims costs between each Canterbury earthquake event.

The apportionment of gross ultimate incurred claims and associated reinsurance recoveries across the various earthquake events is a significant component of TOWER's earthquake claims programme. In the six months to 31 March 2015, TOWER has continued to work through its detailed apportionment process, with a significantly larger group of properties having now been assessed. As the number of assessed properties increases, the degree of subjectivity is much reduced. The apportionment process remains consistent with that used at 30 September 2014. This has resulted in the adoption of a revised expected apportionment outcome for the whole portfolio of properties, with a consequential and negative impact on profit and equity of the Group.

For the September 2010; June 2011 and December 2011 events, TOWER remains within its catastrophe reinsurance cover limits. For each event, catastrophe reinsurance cover headroom remaining is \$28.4 million; \$263.3 million and \$488.2 million respectively. TOWER has exceeded its original \$325.0 million reinsurance cover limit for the February 2011 event.

However in March 2015, TOWER Limited confirmed the placement of Adverse Development Cover reinsurance (ADC) for TOWER Insurance Limited in relation to the February 2011 event. The ADC provides \$50.0 million in cover for adverse developments associated with the February event. TOWER retains exposure to the first \$30.0 million in costs above the \$358.4 million in estimates allocated at 30 September 2014 to the February 2011 event. On the next \$50.0 million in costs, TOWER shares 12.5% (or up to \$6.25 million), with the balance covered by reinsurance for the seven year term of the agreement. Following increases at 31 March 2015 to the February 2011 event gross claims estimates of \$35.6 million, TOWER has reached the additional reinsurance recovery threshold provided by the ADC. Included within reinsurance recoveries is an amount of \$4.1 million in respect of the ADC.

The Group's Appointed Actuary continues to be directly involved with the earthquake ultimate incurred claims estimate and this extends to the derivation of estimated outcomes. Given the nature of estimation uncertainties discussed, actual claims experience may still deviate, perhaps substantially, from the gross outstanding claims liabilities recorded as at 31 March 2015. Any further changes to estimates will be recorded in the accounting period when they become known.

13. Subsequent events

Declaration of dividend

On 25 May 2015 the Directors declared an interim dividend of 8.5 cents per share. There will be no imputation credits attached to the dividend. The dividend will be paid on 30 June 2015 (Payment Date) to all shareholders on the register as at 5pm on Friday, 12 June 2015 (Record Date). The estimated dividend payable is \$14,938,703. TOWER will not be operating the Dividend Reinvestment Plan for the interim dividend. TOWER will withhold resident and non-resident withholding tax where applicable.

Return of Capital

On 26 November 2014, the Board approved for announcement to the market, the return of approximately \$34 million of capital to shareholders via a voluntary on-market buyback. TOWER continues to hold significant capital above the current solvency minimum required by the Reserve Bank of New Zealand and its own long-term solvency policy. Subject to final approvals and shareholder notifications, TOWER expects the next stage of its capital management programme, an on market share buyback of up to \$34 million, to commence following the Company's half-year results announcement on 26 May 2015.

14. Discontinued operations/disposal groups held for sale

The operating results and financial position of the divested businesses have been removed from individual lines in the financial statements and notes, as required by accounting standards, and have been presented as a discontinued operation and disposal group held for sale below.

For details of discontinued operations and disposal groups held for sale, refer to the 30 September 2014 audited financial statements.

Consolidated results of discontinued operations/disposal groups are as follows:

	Half year ended	
	31 March 2015 Unaudited \$000	31 March 2014 Unaudited \$000
Profit for the half year from discontinued operations/disposal groups		
(Loss)/profit for the half year from discontinued operations:		
Australian liabilities	-	(1,168)
Participating life business	-	3,687
Profit from discontinued operations	-	2,519
Profit from disposal of subsidiaries		
Health business	-	99
Investments business	9	279
Non-participating life business	(634)	13
Participating life business attributable costs	841	203
	216	594
Profit from discontinued operations/disposal groups	216	3,113

Profits from disposal of subsidiaries in the table above result from releases of provision (net of tax) and other attributable costs.



Independent Review Report

To the shareholders of TOWER Limited

Report on the Interim Financial Statements

We have reviewed the accompanying group financial statements of TOWER Limited ("the Group") on pages 13 to 30, which comprise the condensed statement of financial position as at 31 March 2015, and the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six month period ended on that date and selected explanatory notes.

Directors' Responsibility for the Financial Statements

The Directors of TOWER Limited are responsible for the preparation and presentation of these financial statements in accordance with New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Our Responsibility

Our responsibility is to express a conclusion on the accompanying financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the financial statements, taken as a whole, are not prepared in all material respects, in accordance with NZ IAS 34. As the auditors of the Company, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand). Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Group.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these financial statements of the Group are not prepared, in all material respects, in accordance with NZ IAS 34.

Restriction on Distribution or Use

This report is made solely to the Company's shareholders as a body. Our review work has been undertaken so that we might state to the Company's shareholders those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the shareholders, as a body, for our review procedures, for this report, or for the conclusion we have formed.

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Chartered Accountants 25 May 2015

Auckland

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TOWER Directory

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Chief Financial Officer and Company Secretarial

Brett Wilson

Executive leadership team

David Hancock (CEO) Brett Wilson (CFO) Andrew Diver Vanessa Dudley Mark Savage Glenys Talivai

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PricewaterhouseCoopers

Banker Westpac New Zealand Limited

Solicitor

DLA Piper New Zealand

Enquiries

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Company numbers

TOWER Limited (Incorporated in New Zealand)

NZ Incorporation 979635 NZBN 9429 0374 84576 ARBN 088 481 234

Stock exchanges

The Company's ordinary shares are listed on the NZSX and the ASX.

Registrar

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You can also manage your holdings electronically by using Computershare's secure website investorcentre.com/nz

This website enables holders to view balances, change addresses, view payment and tax information and update payment instruction and report options.

TOWER recommends shareholders elect to have any payments direct credited to their nominated bank account in New Zealand or Australia to minimise the risk of fraud and misplacement of cheques.

Please quote your CSN number or shareholder number when contacting Computershare.

TOWER Limited Investor Relations

Telephone: +64 9 369 2000 Email: investor.relations@tower.co.nz Website: tower.co.nz

Registrar

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