

Tower Limited

2016 half year report



Investment **highlights**

For the **half year** ended 31 March 2016

Half year
reported loss

\$8.7m

after tax

Underlying
half year **profit**¹

\$7.6m

after tax

Underlying half year
earnings per share (eps) ²

4.5 cents per
share

Half year
dividend

8.5 cents per
share

Gross written
premium

\$146m

Solvency ratio³

234%

of Minimum Solvency
Capital (MSC)

1. Underlying profit excludes \$2.1m impact of Canterbury provision increases and \$14.1m on IT impairments.

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

3. Solvency ratio for Tower Insurance Limited Group.

Tower Limited report

For the **half year**
ended 31 March 2016

"It was very quick,
easy to understand,
sometimes it can be difficult
to understand some call
centres, but very clear and
precise communication."

Valued Tower customer

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Tower Management **Review**

Half year to 31 March 2016

Features of half year 2016

- Reported half year loss of \$8.7 million impacted by intangible asset impairment and adjustments to Canterbury provisions
- Underlying profit after tax of \$7.6 million impacted by the industry environment; higher claims costs (including Cyclone Winston), flat premium and a lower interest rate environment
- Comprehensive IT review has identified limitations in the current IT platform, resulting in impairment of \$19.6 million on legacy platforms (\$14.1 million post tax impact)
- Further progress on Canterbury:⁴ 249 property claims settled in the half; \$2.9 million increase in provision (\$2.1 million post tax impact)
- Gross written premium (GWP) stable at \$146.2 million (H1 2015: \$145.9 million), return to policy growth in core New Zealand book
- Business improvement initiatives beginning to strengthen core business; retention focus delivering policy growth and cost focus reversed trend on expense growth
- Strong solvency maintained with \$155 million in solvency capital⁴ and a solvency ratio of 234% of MSC in Tower Insurance Limited; additional \$23 million cash held at Tower Limited⁵

- 7.1 million shares purchased through the share buyback; programme not being renewed
- Dividend of 8.5 cents per share (unimputed); intention to maintain full year dividend at FY15 level

Half year summary

Tower reported a net loss after tax of \$8.7 million for the half year ended 31 March 2016 (H1 2016) compared to a loss of \$4.9 million for the half year ended 31 March 2015 (H1 2015). The result was impacted by impairments on IT assets and adjustments to Canterbury provisions.

Against a market backdrop of static premiums, an active storm season in the Pacific, increasing claims costs across the industry and low interest rates impacting on investment income, Tower's underlying profit after tax was \$7.6 million.

During the half year, Tower completed a thorough review of the current IT infrastructure to determine whether the existing platforms would support Tower's ambitions to become a high performing general insurer. This review identified shortcomings that would limit Tower's potential performance.

Tower is currently identifying IT options that would enable the business to increase productivity, reduce expenses and provide a better customer experience.

4. For additional information regarding Canterbury claim numbers, solvency, and Pacific performance, please refer to Tower Limited Half year results announcement presentation to 31 March 2016, released on 24 May 2016, available on tower.co.nz/investor-centre

5. Before payment of interim dividend of \$14.3m.

This has created the need to accelerate depreciation on existing IT assets, resulting in an impairment of \$19.6 million (\$14.1 million post tax).

Tower continues to make solid progress settling claims in Canterbury. During the half, 249 property claims were finalised. Tower added 155 new property claims in the half mainly relating to new over cap properties as well as temporary accommodation and DFPP⁶ claims, as the EQC finalised the repairs on its under cap properties. As of 31 March 2016, 641 property claims remain outstanding. Provisions for Canterbury were adjusted by \$2.9 million (\$2.1 million post tax impact).

A number of initiatives were launched in the half year to enhance business performance in the short term. A focus on costs has resulted in a reduction in management expenses on the second half of 2015, while retention initiatives have resulted in positive policy growth for the core New Zealand book, the first positive policy movement since H1 2014.

These small yet significant steps acknowledge Tower's cost-out and retention initiatives are working and that the business is gaining positive momentum.

Tower Insurance Limited's solvency position remains strong with \$155 million of solvency capital and a solvency ratio of 234% of MSC, plus \$23 million additional cash in Tower Limited.

Having completed its first year as a general insurer, Tower has reached a pivot point: the business has now stabilised to the degree where it is clear that investment is required to realise its potential.

Consistent with the need to invest in the business to drive high performance and deliver shareholder value over the long term, Tower and its appointed actuary have completed a dynamic financial analysis to determine appropriate capital levels. Tower will adjust its capital strategy accordingly and move from a specific target of 175% of MSC to a target range of 180% to 200%.

The on-market share buyback programme, which has repurchased 7 million shares at a value of \$14.5 million, has not been renewed.

The Board announced a half year dividend of 8.5 cents per share (unimputed) and its intention to maintain the full year dividend at FY2015 levels. The half year dividend will be paid on 30 June 2016 to shareholders on the register on Friday 10 June 2016.

6. DFPP refers to driveways, fences, pools and pathways, all of which sit outside scope of EQC.

Financial performance

Tower has reported flat gross written premium (GWP) and underlying profit after tax of \$7.6 million, representing a significant reduction on a particularly strong 2015 first half performance, which had no weather related events, fewer claims and lower management expenses.

Along with other general insurers, Tower has regularly reiterated that the dynamic nature of the tail end of Canterbury earthquake claims could result in further provision adjustments. The provision increase of \$2.9 million pre-tax should be viewed in this context.

Asset impairments of \$19.6 million reflect the limitations of existing IT assets following

a comprehensive review of IT requirements needed to drive Tower's business performance. Tower is currently identifying IT options that would enable the business to increase productivity, reduce expenses and provide a better customer experience.

Deterioration in the claims ratio to 52.1% and combined ratio to 94.3% reflect the effects of the current industry environment with regard to higher claims costs, and the impact of an active storm season in the Pacific, especially when compared with the benign weather environment experienced in H1 2015. Tower has a range of initiatives underway to address claims performance and anticipates benefits from these will flow through into the second half.

\$ million	H1 16	H1 15	Movement %
Gross written premium	146.2	145.9	0.2%
Total underlying profit after tax^a	7.6	17.5	(56.9%)
Canterbury impact ^b	(2.1)	(22.6)	n/a
Impairment of intangibles ^c	(14.1)	-	n/a
Profit on discontinued businesses ^d	-	0.2	n/a
Reported profit after tax	(8.7)	(4.9)	n/a
Key ratios			
Underlying EPS (cents) ^e	4.5	10.0	(55.2%)
DPS (cents)	8.5	8.5	
Claims ratio	52.1%	44.5%	
Expense ratio	42.2%	40.9%	
Combined ratio	94.3%	85.4%	

Source: Tower Limited Half year results announcement presentation to 31 March 2016 released on 24 May 2016.

a. Underlying profit excludes the impact of Canterbury earthquakes, IT impairments and profit on discontinued businesses.

b. In the Group financial statements, the impact of 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.

c. In the Group financial statements, the impairment of intangibles is reported as impairment expense and tax thereon.

d. In the Group financial statements, the profit on discontinued business is shown as profit from disposal of subsidiaries.

e. Refers to underlying profit rather than reported profit.

Tower's market leading position in the Pacific continues to deliver a solid performance.⁷ Gross written premium growth of 4.6% to \$29.9 million was driven by the launch of Vanuatu, and underlying growth in Tonga, Samoa and American Samoa and Fiji. This was offset by a deliberate de-risking in Papua New Guinea. Pacific net profit after tax (NPAT) of \$2.1 million was impacted by a single large claim in Vanuatu and Cyclone Winston, which also affected the underlying claims ratio.

Underlying earnings per share (EPS) was 4.5 cents, compared to 10 cents in H1 2015.

The half year dividend of 8.5 cents per share reflects the Board's continued confidence in Tower's capital position and earnings potential.

The Board has signalled its intention to maintain the full year dividend at FY2015 level.

Underlying earnings performance

Underlying profit after tax was \$7.6 million. This was largely attributable to higher business as usual (BAU) claims and events in the Pacific.

7. For additional information regarding Canterbury claim numbers, solvency, and Pacific performance, please refer to Tower Limited Half year results announcement presentation to 31 March 2016, released on 24 May 2016, available on tower.co.nz/investor-centre

\$ million	H1 16	H1 15	Movement %
Gross written premium	146.2	145.9	0.2%
Gross earned premium	151.5	150.4	0.7%
Reinsurance costs	(24.5)	(25.7)	(4.5%)
Net earned premium	127.0	124.7	1.8%
Net incurred claims	(62.9)	(55.5)	13.4%
Large events claims ^a	(3.3)	-	n/a
Management and sales expenses	(50.8)	(49.2)	3.4%
Depreciation and amortisation	(2.7)	(1.8)	50.0%
Underwriting profit	7.2	18.3	(60.5%)
Investment revenue	4.4	7.3	(39.8%)
Financing costs	-	-	n/a
Underlying profit before tax	11.6	25.6	(54.6%)
Income tax expense	(4.0)	(8.0)	(49.7%)
Underlying profit after tax^b	7.6	17.5	(56.9%)

Source: Tower Limited Half year results announcement presentation to 31 March 2016 released on 24 May 2016.

a. Large event claims refer to events with cumulative claims costs greater than \$1m.

b. Underlying profit excludes the impact of Canterbury earthquakes, IT impairments and profit on discontinued businesses.

Gross written premiums were stable at \$146.2 million, reflecting the flat New Zealand premium environment and the ongoing impact of the run off of the ANZ portfolio. The Pacific continues to deliver strongly with GWP growth of 4.6% on the previous corresponding period. Tower is pleased that the core New Zealand book has returned to positive policy growth for the first time since March 2014.

Reinsurance costs have fallen slightly to \$24.5 million, despite the higher levels of cover purchased. This reflects continued price weakness in reinsurance markets. Tower will continue to explore options to reduce volatility and risk where appropriate.

Business as usual claims costs reached \$62.9 million in the half year, growth of 13.4% versus the prior half. Increases in claims costs were attributable to:

- The higher overall costs in the Pacific – when compared to the corresponding period – due to an active storm season in the Pacific and a large loss in Vanuatu
- Falling exchange rates that drive up costs for parts, impacting motor claims
- Labour shortages in the building sector, which increase the average cost of house claims
- The higher frequency of claims as a result of underwriting and risk selection

Managing claims costs is a top priority and Tower has a number of initiatives underway to address this.

The Pacific was impacted by Cyclone Winston, which incurred a cost of \$3.3 million, less than originally anticipated. This cost has contributed toward the excess of Tower's aggregate reinsurance cover.

Management expenses (including depreciation) have increased 4.8% to \$53.6 million versus H1 2015 although were lower than H2 2015. This is due to the flow through of costs associated with the launch of Trade Me Insurance and investment in service levels in the second half of 2015. Recently launched cost out initiatives have reversed this trend and have successfully reduced management expenses in the half. As a result of the focus on costs, Tower expects further improvement in the expense base in the second half.

Investment revenue was \$4.4 million, a decrease of 39.8% as a result of lower balances and falling interest rates.

Strong balance sheet maintained

Tower maintains a strong balance sheet, which supports future growth opportunities.

Payment of Canterbury claims will continue to impact both the reinsurance receivables and cash balances.

The half year cash balance is \$94.7 million, down 37.9% as a result of cash being used in the share buyback, and payment of Canterbury claims over reinsurance caps.

Extended reinsurance cover continues to protect the Tower balance sheet ensuring the company has options to both manage risk and invest for growth.

\$ million	H1 16	H1 15 ^a	Movement %
Cash & call deposits	94.7	152.3	(37.9%)
Investment assets	201.3	215.7	(6.7%)
Deferred acquisition costs	19.8	19.9	(0.7%)
Intangible assets	29.1	42.7	(30.7%)
Other operational assets/(liabilities) ^b	324.8	296.6	9.4%
Total assets	669.8	727.2	(7.9%)
Policy liabilities & insurance provisions	(355.8)	(357.7)	(0.5%)
Other operational (liabilities)/assets ^b	(60.6)	(63.1)	(3.9%)
Total liabilities	(416.4)	(420.8)	(1.0%)
Total equity	253.4	306.4	(17.3%)

Source: Tower Limited Half year results announcement presentation to 31 March 2016 released on 24 May 2016.

a. Management review balance sheet commentary compares H1 16 to H1 15, being the prior comparative period.

The interim financial statements comparative period is 30 September 2015, in accordance with accounting standards.

b. A number of assets or liabilities of disposed groups classified as held for sale in the H1 15 financial statements.

Strategic imperatives

Tower has strengthened its management team with further insurance capability and outlined three strategic imperatives at the February Annual Shareholders Meeting, each of which is critical to the future success and growth of the business.

The focus is on those initiatives underway with short to medium term horizons.

Tower is focused on strengthening its core insurance business. This means investing in initiatives to reduce costs and complexity, and improve performance.

Already, initiatives designed to reduce management expenses and improve retention rates are showing positive results.

The three strategic imperatives, together with a selection of supporting initiatives, are outlined as follows:

1. High performance customer service culture

- retention focus to drive growth
- review of customer service
- continued strong Pacific performance

For the first time since March 2014, Tower has delivered positive policy growth on its core New Zealand book (that excludes the ANZ book in run off).

This has been achieved primarily through targeted retention initiatives that have been rolled out across the business. In the half year, Tower has:

- created a specialist inbound retention team
- started actively targeting current customers with marketing campaigns
- improved pricing in motor and house portfolios
- improved payments processes

Preference and consideration metrics are steadily improving, signalling the recent brand repositioning is showing positive results. Tower expects these improvements to increasingly flow through to new business sales.

The new partnership with Trade Me Insurance was launched in August 2015 and it is still early days. Tower is committed to its alliance with Trade Me and remains confident that this channel will deliver on its potential.

The Pacific continues to provide Tower with further opportunities to drive growth in the short term. The Vanuatu market launch in November 2015 was met with strong interest from the local community. Tower is confident that further growth opportunities in the Pacific can be leveraged as the markets continue to develop.

2. Operational excellence

- **focus on costs**
- **IT simplification**
- **claims management improvement**

Tower recognises that management expenses represent a key growth constraint. Over the past half, Tower has strengthened its focus on non-personnel related costs and now has a broader programme of cost-reduction work underway, including strict vendor management, moving increasingly to digital customer communication and updating internal policies and processes where savings are possible.

There has been a decrease in the cost base relative to the second half 2015, which reflects the benefits of these programmes. Tower expects this to continue to reduce in the second half.

This is a small, yet significant step as it acknowledges that Tower's cost-out initiatives are working and that the business is gaining positive momentum.

The recent IT review identified that the current systems have limitations.

The current environment has multiple core platforms and a large number of ancillary systems. These systems are difficult for our service people to navigate, particularly in 'real time' while talking to customers. They also lack flexibility to price at a granular level or change products and pricing with ease.

The review has resulted in Tower reducing the expected life of its IT assets resulting in a pre-tax impairment of \$19.6 million.

These issues will need to be addressed to enable Tower to compete as a modern high performing insurer.

Tower is currently identifying options that would enable it to increase productivity, reduce expenses and provide a better customer experience.

Across the insurance industry, claims costs have risen sharply over the past two years. However, Tower also acknowledges the need to better manage its claims processes and risk selection, and is taking action to improve claims performance.

Key initiatives launched include a change in delegation at the Customer Services Officer level; updating of underwriting criteria and products; realignment of claims teams to products and the creation of preferred supplier networks for motor and homes.

Positive indications are already evident as a result of these initiatives, with a slow down in claims costs growth in the past half. Tower anticipates further benefits from these initiatives will flow through in the second half.

3. Accurate pricing of risk

- improvement in risk selection
- risk-based pricing
- product rationalisation

Tower's third strategic imperative is delivering accurate pricing of risk.

In the short term, Tower is implementing risk-based pricing for house and motor portfolios. Based on detailed analysis, Tower has identified a number of segments where the market price is higher than the technical cost base, which allows pricing for growth. Tower also identified a number of areas where its price is below the market rate. These will be repriced to improve margin.

Tower is also updating external data on a regular basis to ensure the most up to date prices and reference information is on hand for customers, claims handlers and sales agents.

In the longer term as Tower invests in the business, pricing accuracy will continue to improve. Tower will be able to price at a more granular level and update products and prices more frequently. This is critical to enable Tower to meet the market and become more competitive.

Outlook

The insurance industry is experiencing challenges – a flat market; increasing claims costs; increased competition from new entrants; continued progress on Canterbury; and a low interest rate environment – and we expect these dynamics to continue in the short-term.

However, Tower is confident it can perform in this environment by continuing its focus on business fundamentals that will deliver incremental improvement in the short term.

Tower expects retention improvement to build GWP, and anticipates further reductions in both operational and claims expenses in the second half.

In the longer term, the results of IT simplification, product rationalisation and customer experience programmes will strengthen performance, unlock further opportunities and create long term, sustainable shareholder value.

Tower remains committed to delivering solid shareholder returns in the form of reliable dividends that reflect continued prudent capital management.

Tower Limited Interim Financial Statements and Independent Review Report

For the **half year** ended
31 March 2016

"Communication was efficient and transparent. The time it took to make a claim and then receive replacement of damaged goods was fast."

Valued Tower customer

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Consolidated **Income Statement**For the **half year** ended 31 March 2016

		Half year ended	
	Note	31 March 2016 Unaudited \$000	31 March 2015 Unaudited \$000
Revenue			
Premium revenue	2	151,452	150,398
Less: Outwards reinsurance expense		(24,500)	(25,664)
Net premium revenue		126,952	124,734
Investment revenue	3	4,748	7,667
Fee and other revenue		1,288	1,450
Net operating revenue		132,988	133,851
Expenses			
Claims expense		116,220	107,376
Less: Reinsurance recoveries revenue		(36,549)	(8,791)
Net claims expense	4	79,671	98,585
Management and sales expenses		44,611	41,097
Impairment expense	5	19,649	–
Total expenses		143,931	139,682
Loss attributed to shareholders before tax		(10,943)	(5,831)
Tax benefit attributed to shareholders' profits		2,264	743
Loss for the half year from continuing operations		(8,679)	(5,088)
Profit from disposal of subsidiaries		–	216
Profit for the half year from discontinued operations		–	216
Loss for the half year		(8,679)	(4,872)
Loss attributed to:			
Shareholders		(9,187)	(5,262)
Non-controlling interest		508	390
		(8,679)	(4,872)
Basic and diluted (loss) per share for continuing operations (cents)		(5.42)	(2.99)
Basic and diluted earnings per share for discontinued operations (cents)		–	0.12

The above statement should be read in conjunction with the accompanying notes.

Consolidated Statement of **Comprehensive Income**For the **half year** ended 31 March 2016

	Half year ended	
	31 March 2016 Unaudited \$000	31 March 2015 Unaudited \$000
Loss for the half year	(8,679)	(4,872)
Other comprehensive income		
Currency translation differences	(3,774)	(275)
Other comprehensive loss net of tax	(3,774)	(275)
Total comprehensive loss for the half year	(12,453)	(5,147)
Total comprehensive loss attributed to:		
Shareholders	(12,284)	(5,723)
Non-controlling interest	(169)	576
	(12,453)	(5,147)
Total comprehensive loss attributed to equity arises from:		
Continuing operations	(12,453)	(5,363)
Discontinued operations	–	216
	(12,453)	(5,147)

The above statement should be read in conjunction with the accompanying notes.

Consolidated **Balance Sheet**

As at 31 March 2016

		As at	
	Note	31 March 2016 Unaudited \$'000	30 September 2015 Audited \$'000
Assets			
Cash and cash equivalents		94,665	125,113
Receivables		271,453	257,851
Investments	13	200,919	213,593
Derivative financial assets	13	404	–
Deferred acquisition costs		19,758	20,277
Current tax assets		13,040	14,893
Property, plant and equipment		10,136	10,221
Intangible assets	5	29,182	48,373
Deferred tax assets		30,208	24,786
Total assets		669,765	715,107
Liabilities			
Payables		50,471	48,472
Current tax liabilities		587	568
Provisions	7	3,691	3,273
Derivative financial liabilities	13	147	–
Insurance liabilities		355,776	375,877
Deferred tax liabilities		5,741	6,008
Total liabilities		416,413	434,198
Net assets		253,352	280,909
Equity			
Contributed equity		382,172	384,585
Accumulated (losses) profit		(15,502)	6,376
Reserves		(114,793)	(111,696)
Total equity attributed to shareholders		251,877	279,265
Non-controlling interest		1,475	1,644
Total equity		253,352	280,909

The interim financial statements were approved for issue by the Board on 24 May 2016.



Michael P Stiasny
Chairman



Graham R Stuart
Director

The above statement should be read in conjunction with the accompanying notes.

Consolidated Statement of **Changes in Equity**For the **half year** ended 31 March 2016

	Attributed to shareholders (unaudited)					
	Contributed equity \$000	Accumulated loss \$000	Reserves \$000	Total \$000	Non- controlling interest \$000	Total equity \$000
Half year ended 31 March 2016						
At the beginning of half year	384,585	6,376	(111,696)	279,265	1,644	280,909
Comprehensive income						
(Loss) Profit for the half year	–	(9,187)	–	(9,187)	508	(8,679)
Currency translation differences	–	–	(3,097)	(3,097)	(677)	(3,774)
Total comprehensive loss	–	(9,187)	(3,097)	(12,284)	(169)	(12,453)
Transactions with shareholders						
Capital repayment plan	(2,413)	–	–	(2,413)	–	(2,413)
Dividends paid	–	(12,691)	–	(12,691)	–	(12,691)
Total transactions with shareholders	(2,413)	(12,691)	–	(15,104)	–	(15,104)
At the end of the half year	382,172	(15,502)	(114,793)	251,877	1,475	253,352

The above statement should be read in conjunction with the accompanying notes.

Consolidated Statement of **Changes in Equity**For the **half year** ended 31 March 2016

	Attributed to shareholders (unaudited)					
	Contributed equity \$000	Accumulated loss \$000	Reserves \$000	Total \$000	Non- controlling interest \$000	Total equity \$000
Half year ended 31 March 2015						
At the beginning of half year	396,819	42,174	(114,583)	324,410	1,599	326,009
Comprehensive income						
Profit (Loss) for the half year	-	(5,262)	-	(5,262)	390	(4,872)
Currency translation differences	-	-	(461)	(461)	186	(275)
Total comprehensive income (loss)	-	(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 above statement should be read in conjunction with the accompanying notes.

Consolidated Statement of **Cash Flows**For the **half year** ended 31 March 2016

	Note	Half year ended	
		31 March 2016 Unaudited \$000	31 March 2015 Unaudited \$000
Cash flows from operating activities			
Premiums received		146,072	148,831
Interest received		5,469	8,060
Dividends received		-	5
Net realised investment (loss) gain		852	(1,010)
Fee and other income received		1,288	1,450
Reinsurance received		45,758	73,166
Reinsurance paid		(23,183)	(24,575)
Claims paid		(154,660)	(151,059)
Payments to suppliers and employees		(39,756)	(38,868)
Income tax paid		(1,624)	(1,002)
Net cash (outflow) inflow from operating activities	10	(19,784)	14,998
Cash flows from investing activities			
Net proceeds from (payments for) financial assets		8,231	(2,656)
Disposal of property, plant and equipment and intangible assets		-	13
Purchase of property, plant and equipment and intangible assets		(3,217)	(13,178)
Net cash inflow (outflow) from investing activities		5,014	(15,821)
Cash flows from financing activities			
Capital repayment		(2,413)	(82)
Dividends paid		(12,691)	(14,060)
Payment of non-controlling interest dividends		-	(500)
Net cash outflow from financing activities		(15,104)	(14,642)
Net decrease in cash and cash equivalents		(29,874)	(15,465)
Foreign exchange movement in cash		(573)	(264)
Cash and cash equivalents at the beginning of half year		125,113	168,062
Cash and cash equivalents at the end of half year		94,666	152,333

The above statement should be read in conjunction with the accompanying notes.

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2016

1. Summary of general accounting policies

Entities reporting

The interim financial statements presented are those of Tower Limited (the Company) and its subsidiaries (the Group). The Company and its subsidiaries together are referred to in this financial report as Tower or the Group.

Statutory base

Tower Limited is a company incorporated in New Zealand under the Companies Act 1993 and listed on the New Zealand and Australian Stock Exchanges. The Company is a Financial Markets Conduct Act 2013 reporting entity under Part 7 of the Financial Markets Conduct Act 2013.

Basis of preparation

The interim financial statements of the Group have been prepared in accordance with New Zealand Generally Accepted Accounting Practice (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 annual financial statements.

The interim financial statements of the Group have been prepared in accordance with the requirements of Part 7 of the Financial Markets Conduct Act 2013, the NZX Main Board Listing Rules and the ASX Listing Rules.

The interim financial statements should be read in conjunction with the annual financial statements for the year ended 30 September 2015, which have been 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 2016 are unaudited.

Accounting policies

The principal accounting policies adopted in the preparation of the interim financial statements are consistent with those of the audited annual financial statements for the year ended 30 September 2015.

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 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.

Comparatives

The 30 September 2015 comparative information has been restated to correct the presentation of receivables and insurance liabilities, each by \$43.8 million. On the balance sheet, receivables has been reduced by \$43.8 million to \$257.8 million and insurance liabilities has reduced by \$43.8 million to \$375.9 million. Total assets and total liabilities have reduced accordingly. There is no change to net assets. For further details, refer to note 4A. On the basis the impact on the opening balance sheet is not deemed material for users of financial statements the opening balances have not been represented.

Impact of amendments to NZ IFRS

The application of new or amended accounting standards as of 1 October 2015 has not had a material impact on the financial statements.

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2016

2. Premium revenue

	Half year ended	
	31 March 2016 Unaudited \$000	31 March 2015 Unaudited \$000
Gross written premiums	146,165	145,884
Less: Gross unearned premiums	5,287	4,514
Premium revenue	151,452	150,398

3. Investment revenue

	Half year ended	
	31 March 2016 Unaudited \$000	31 March 2015 Unaudited \$000
Fixed interest securities		
Interest income	5,470	8,060
Net realised gain (loss)	620	(883)
Net unrealised gain (loss)	(1,302)	645
Total fixed interest securities	4,788	7,822
Equity securities		
Dividend income	-	5
Net unrealised gain (loss)	(163)	-
Total equity securities	(163)	5
Other		
Net realised gain (loss)	232	(127)
Net unrealised gain (loss)	(109)	(33)
Total other	123	(160)
Total investment revenue	5,470	8,065
Total net realised gain (loss)	852	(1,010)
Total net unrealised gain (loss)	(1,574)	612
Total investment revenue	4,748	7,667

The gains and losses from fixed interest, equity and property securities 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.

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2016**4. Net claims expense**

Net claims expense comprises:

	Note	Half year ended	
		31 March 2016 Unaudited \$'000	31 March 2015 Unaudited \$'000
Canterbury earthquake claims (4 key events)	4A	2,900	31,387
Other claims		76,771	67,198
Total net claims expense		79,671	98,585

4A. Canterbury earthquakes

Tower has received over 15,900 individual claims from customers as a result of earthquakes impacting the Canterbury region during 2010 and 2011. Like other industry participants, Tower continues to receive 'over-cap' claims from EQC. Of all claims received, Tower has settled over 15,260 claims at 31 March 2016, representing a 96% settlement rate by number of claims and 89% by value. To date, Tower has paid out more than \$705 million to customers in respect of the four main earthquakes that occurred on 4 September 2010; 22 February 2011; 13 June 2011 and 23 December 2011. Tower enjoys the support of its reinsurance partners as it works through its Canterbury claims settlement programme.

As at 31 March 2016, Tower has estimated gross ultimate incurred claims of \$822.3 million in respect of the four main Canterbury earthquake events (30 September 2015: \$792.0 million).

The table below presents a financial representation of Tower's net outstanding claims provision at 31 March 2016 in relation to the four main earthquake events.

Canterbury earthquake provisions

	31 March 2016 Unaudited \$'000	30 September 2015 Audited \$'000
Insurance liabilities		
Outstanding claims	(145,481)	(163,000)
Receivables		
Reinsurance recovery receivables	52,100	59,400
Other receivables	58,200	57,400
	110,300	116,800
Net outstanding claims	(35,181)	(46,200)

At September 2015, an element of EQC contributions (\$43.8 million) had been included within outstanding claims and reinsurance recovery receivables. This amount did not represent a liability for Tower nor a related reinsurance receivable. Accordingly, both outstanding claims and reinsurance recovery receivables have been reduced. There is no change to net outstanding claims.

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2016

4A. Canterbury earthquakes (continued)

The following table presents Tower's cumulative income statement information in relation to the four main earthquake events.

	31 March 2016 Unaudited \$000	30 September 2015 Audited \$000
Cumulative expenses associated with Canterbury earthquakes:		
Earthquake claim estimate	(822,300)	(792,000)
Reinsurance recoveries	719,583	692,183
Claim expense net of reinsurance recoveries	(102,717)	(99,817)
Reinsurance expense	(25,045)	(25,045)
	(127,762)	(124,862)
Income tax	36,454	35,642
Cumulative impact of Canterbury earthquakes after tax	(91,308)	(89,220)
Recognised in current period (net of tax)	(2,088)	(36,198)

The Group's Appointed Actuary continues to be directly involved with the assessment of earthquake ultimate incurred claims estimates and the derivation of estimated outcomes. The estimated ultimate incurred claims cost of the most significant earthquake event in February 2011 ("February 2011 event") totals \$449.8 million. Tower has reinsurance for \$375.35 million on this event including catastrophe cover, proportional reinsurance and adverse development cover. During the half year ended 31 March 2016, Tower expensed \$2.9 million in relation to the February 2011 event (2015: \$45.5 million, split \$31.4 million in the first half year to 31 March and \$14.1 million in the second half year).

Tower's actuarial review at 31 March 2016 identified the following as key contributors to the increase in expected earthquake claims costs:

- Development of claim costs (in particular, multi-unit claims) as they progress through the claims life cycle;
- Impact of cash settled claims not subject to observed development patterns as for repairs and rebuilds; and
- Refinement of actuarial assumptions incorporating claims incurred but not reported and apportionment.

Tower has exceeded its catastrophe reinsurance and adverse development cover limits in relation to the February 2011 event. For the three other main earthquake events, the catastrophe reinsurance cover headroom remaining is included in the table on the following page.

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2016**4A. Canterbury earthquakes (continued)**

Date of event	Catastrophe reinsurance cover remaining
September 2010	\$17.1 million
June 2011	\$261.8 million
December 2011	\$487.7 million

The key elements of judgement within the claims estimation are as follows:

- the rate of claims closure
- recoveries from EQC in respect of land damage and building costs
- apportionment of claim costs to each of the four main earthquake events
- future increases in building costs
- future claim management expenses
- closed claims reopening, and
- risk margin.

Given the nature of estimation uncertainties (including those listed above) actual claims experience may still deviate, perhaps substantially, from the gross outstanding claims liabilities recorded as at 31 March 2016. Any further changes to estimates will be recorded in the accounting period when they become known.

Sensitivity analysis – impact of changes in key variables

Net outstanding claims is comprised of several key elements, as set out earlier in this note. Sensitivity of net outstanding claims is therefore driven by changes to the assumptions underpinning each of these elements.

The impact of changes in significant assumptions on the net outstanding claims liabilities are shown in the table below for the Group. Each change has been calculated in isolation to other changes.

Where Tower is reinsured, the impact of a change to claims cost is borne by reinsurance, so the net impact is nil on the basis that there is no default on the part of the reinsurers. This is the situation for three of the four main earthquakes other than February 2011 event which has exceeded reinsurance cover.

The changes in the table below therefore relate to February 2011 event to the extent that claim costs change. If cumulative costs were to reduce by more than \$11.3 million, then the impact on Tower is muted by adverse development reinsurance at the rate of 87.5%.

Impact on February 2011 event provision

	Change variable	31 March 2016 \$000	30 September 2015 \$000
Outstanding claims:			
Change to costs and quantity of expected claim estimates including building costs and other impacts	+ 5%	4,600	6,500
	- 5%	(4,600)	(6,500)
Change in apportionment of claim costs to / from February 2011 event	+ 1%	(7,000)	(6,800)
	- 1%	7,000	6,800
Other receivables:			
Recoveries from EQC in respect of land damage	+ 10%	(860)	(850)
	- 10%	860	850
Recoveries from EQC in respect of building costs	+ 10%	(430)	(450)
	- 10%	430	450

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2016

5. Intangible assets

Software

Application software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight line basis over the estimated useful life of the software.

Internally generated intangible assets are recorded at cost which includes all the directly attributable costs necessary to create, produce and prepare the asset capable of operating in the manner intended by management. Amortisation of internally generated intangible assets begins when the asset is available for use and is amortised on a straight line basis over the estimated useful life.

General use computer software 3–5 years

Core operating system software 3–10 years

Following the impairment review discussed below, the Group has reduced the estimated useful economic life and amortisation period of the core operating system software to 3 years from 1 April 2016.

Impairment

The Group has reviewed the carrying value of software intangible assets (both internally developed and under development) for indicators of impairment as at 31 March 2016. Assessment of impairment indicators included reviewing the technical feasibility of completing the software development so it would be available for use; the intention to complete the software development; and whether the software would generate probable future economic benefits. The review was undertaken in light of revised expectations for future technology platforms required to support growth in the New Zealand and Pacific insurance businesses.

As a result of this review, the Directors concluded that impairment of certain software intangible assets was required as at 31 March 2016. An impairment charge of \$19.65 million has been recognised in these financial statements (2015: nil) relating to Internally developed software and Software under development categories:

	Software				
	Goodwill \$000	Acquired \$000	Internally developed \$000	Under development \$000	Total \$000
Half year ended 31 March 2016					
Unaudited					
Cost:					
Opening balance	17,744	4,223	34,861	14,279	71,107
Additions	–	–	106	2,594	2,700
Transfers	–	–	–	(106)	(106)
Foreign exchange movements	–	(2)	–	–	(2)
Transfers to Property, plant and equipment	–	–	–	(639)	(639)
Closing balance	17,744	4,221	34,967	16,128	73,060
Accumulated amortisation:					
Opening balance	–	(4,047)	(18,687)	–	(22,734)
Amortisation charge	–	(96)	(1,400)	–	(1,496)
Foreign exchange movements	–	1	–	–	1
Impairment expense	–	–	(3,895)	(15,754)	(19,649)
Closing balance	–	(4,142)	(23,982)	(15,754)	(43,878)

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2016

5. Intangible assets (continued)

	Software				
	Goodwill \$000	Acquired \$000	Internally developed \$000	Under development \$000	Total \$000
Half year ended 31 March 2016					
Unaudited					
Net book value					
At cost	17,744	4,221	34,967	16,128	73,060
Accumulated amortisation	–	(4,142)	(23,982)	(15,754)	(43,878)
Closing net book value	17,744	79	10,985	374	29,182

	Software				
	Goodwill \$000	Acquired \$000	Internally developed \$000	Under development \$000	Total \$000
Year Ended 30 September 2015					
Audited					
Cost:					
Opening balance	17,744	4,186	25,063	9,563	56,556
Additions	–	33	9,798	15,349	25,180
Disposals	–	(1)	–	(109)	(110)
Transfers	–	–	–	(9,819)	(9,819)
Foreign exchange movements	–	5	–	–	5
Transfers to Property, plant and equipment	–	–	–	(705)	(705)
Closing balance	17,744	4,223	34,861	14,279	71,107

Accumulated amortisation:

Opening balance	–	(3,745)	(17,328)	–	(21,073)
Amortisation charge	–	(301)	(1,359)	–	(1,660)
Amortisation on disposals	–	1	–	–	1
Foreign exchange movements	–	(2)	–	–	(2)
Closing balance	–	(4,047)	(18,687)	–	(22,734)

Net book value

At cost	17,744	4,223	34,861	14,279	71,107
Accumulated amortisation	–	(4,047)	(18,687)	–	(22,734)
Closing net book value	17,744	176	16,174	14,279	48,373

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2016

6. Segmental reporting

	Unaudited			
	New Zealand \$000	Pacific Islands \$000	Other (Holding companies & eliminations) \$000	Total \$000
Half year ended 31 March 2016				
Revenue				
Revenue – external	108,947	23,277	764	132,988
Revenue – internal	2,401	–	(2,401)	–
Total revenue	111,348	23,277	(1,637)	132,988
Profit (Loss) before income tax	5,877	3,716	(20,536)	(10,943)
Income tax credit (expense)	(1,799)	(1,636)	5,699	2,264
Profit (Loss) for the half year	4,078	2,080	(14,837)	(8,679)
Half year ended 31 March 2015				
Revenue				
Revenue – external	108,675	24,135	1,041	133,851
Revenue – internal	1,776	(1,776)	–	–
Total revenue	110,451	22,359	1,041	133,851
Profit (Loss) before income tax	(11,628)	6,290	(493)	(5,831)
Income tax credit (expense)	3,602	(2,993)	134	743
Profit (Loss) for the half year	(8,026)	3,297	(359)	(5,088)
Total assets 31 March 2016 (Unaudited)	493,807	85,822	90,136	669,765
Total assets 30 September 2015 (Audited)	555,041	86,651	73,415	715,107
Total liabilities 31 March 2016 (Unaudited)	358,409	53,646	4,358	416,413
Total liabilities 30 September 2015 (Audited)	375,235	54,266	4,697	434,198

Description of segments and other segment information

An operating segment is a group of 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.

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who reviews the operating results on a regular basis and makes decisions on resource allocation and assessing performance. The chief operating decision-maker has been identified as the Company's Board of Directors.

New Zealand segment comprised general insurance business written in New Zealand. Pacific Islands segment includes general insurance business with customers in Pacific Islands written by Tower Insurance subsidiaries and branch operations. Other includes head office expenses, financing costs and eliminations.

Tower Group operates predominantly in two geographical segments, New Zealand and the Pacific region. Dormant operations in the United Kingdom and the United States are a negligible part of the Group's operations and assets.

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2016

7. Provisions

	31 March 2016 Unaudited \$000	30 September 2015 Audited \$000
Business separation	8	209
Employee benefits	3,683	3,064
Total provisions	3,691	3,273
Analysed as:		
Current	3,691	3,273
Non current	-	-
Total provisions	3,691	3,273

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

8. Distributions to shareholders

Dividend payments

On 24 November 2015 the Directors declared a final dividend for the 2015 financial year of 7.5 cents per share. The dividend was paid on 3 February 2016. The total amount paid was \$12,687,553. There were no imputation credits attached to the dividend and Tower did not offer its Dividend Reinvestment Plan for this dividend.

Return of capital

Tower commenced an on market share buyback of up to \$34 million following the Company's half year results announcement on 26 May 2015. \$14.6 million of capital has been bought back and cancelled during the 10 months to 31 March 2016. Capital of \$2.4 million was bought back in the half year to 31 March 2016.

9. Solvency requirements

	31 March 2016 Unaudited \$000	30 September 2015 Audited \$000
Actual solvency capital	155,223	156,646
Minimum solvency capital	66,465	69,730
Solvency margin	88,758	86,916
Solvency ratio	234%	225%

The minimum solvency capital required to be retained by Tower Insurance Limited Group to meet solvency requirements under the Insurance (Prudential Supervision) Act 2010 is shown above. Actual solvency capital exceeds the minimum solvency capital requirement for the Tower Insurance Limited Group by \$88.8 million (2015: \$86.9 million).

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. This minimum solvency requirement was confirmed on 15 September 2015 by the Reserve Bank of New Zealand.

The methodology and bases for determining the solvency margin are in accordance with the requirements of the Solvency Standard for Non-life Insurance Business published by the Reserve Bank of New Zealand.

Notes to the Interim Financial StatementsFor the **half year** ended 31 March 2016

10. Reconciliation of profit for the period to net cash flows from operating activities

	Unaudited	
	31 March 2016 \$000	31 March 2015 \$000
Loss for the year	(8,679)	(4,872)
Add (less) non-cash items		
Depreciation of property, plant and equipment	1,228	1,224
Amortisation of software	1,496	577
Impairment of software	19,649	-
Unrealised (gain) loss on financial assets	1,574	(612)
Gain on disposal of property, plant and equipment	-	(13)
Decrease in deferred tax	(5,636)	(3,724)
	18,311	(2,548)
Add (less) movements in working capital (excluding the effects of exchange differences on consolidation)		
Decrease in receivables	12,056	65,061
Decrease in payables	(43,220)	(44,397)
Increase in taxation	1,748	1,754
	(29,416)	22,418
Net cash inflows (outflows) from operating activities	(19,784)	14,998

11. Net assets per share

	31 March 2016 Unaudited \$	30 September 2015 Audited \$
Net assets per share	1.50	1.65
Net tangible assets per share	1.18	1.26

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.

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2016

12. Subsequent events

Declaration of dividend

On 24 May 2016 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 2016 (Payment Date) to all shareholders on the register as at 5pm on Friday, 10 June 2016 (Record Date). The estimated dividend payable is \$14,336,283. 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 24 May 2016 the Directors announced the voluntary on-market share buyback would stop with immediate effect.

13. Fair value of financial assets and liabilities

The following tables present the Group's assets and liabilities categorised by fair value measurement hierarchy levels.

	Total \$000	Level 1 \$000	Level 2 \$000	Level 3 \$000
As at 31 March 2016				
Unaudited				
Assets				
Investments in equity securities	1,573	–	–	1,573
Investments in fixed interest securities	199,312	–	199,312	–
Investments in property securities	34	–	34	–
Investments	200,919	–	199,346	1,573
Derivative financial assets	404	–	404	–
Total financial assets	201,323	–	199,750	1,573
Liabilities				
Derivative financial liabilities	147	–	147	–
Total financial liabilities	147	–	147	–

As at 30 September 2015

Audited

Assets

Investments in equity securities	1,972	–	–	1,972
Investments in fixed interest securities	211,587	–	211,587	–
Investments in property securities	34	–	34	–
Total financial assets	213,593	–	211,621	1,972

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2016

13. Fair value of financial assets and liabilities (continued)

The following table represents the changes in Level 3 instruments:

Investment in equity securities		
	As at 31 March 2016 Unaudited \$000	As at 30 September 2015 Audited \$000
Opening balance	1,972	1,835
Total gains and losses recognised in profit and loss	(168)	–
Foreign currency movement	(231)	137
Closing balance	1,573	1,972

The following table shows the impact of increasing or decreasing the combined inputs used to determine the fair value of the investment by 10%:

	Carrying Amount \$000	Favourable changes of 10% \$000	Unfavourable changes of 10% \$000
As at 31 March 2016			
Investment in equity securities	1,573	157	(157)
As at 30 September 2015			
Investment in equity securities	1,972	197	(197)

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.

Notes to the Interim Financial Statements

For the **half year** ended 31 March 2016

13. Fair value of financial assets and liabilities (continued)

(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 2016, the Level 3 category includes investment in equity securities of \$1,573,000 (September 2015: \$1,972,000). These investments are in unlisted shares of a company which provides reinsurance to Tower and a company which owns a building used by Tower. The fair value is calculated based on the net assets of the company from the most recently available financial information. In the case of the property owning company, 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.

(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 (30 September 2015: nil).



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 11 to 29, which comprise the condensed balance sheet as at 31 March 2016, and the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six months 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 International Accounting Standard 34 Interim Financial Reporting (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 and 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 auditors perform 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) and International Standards on Auditing. Accordingly we do not express an audit opinion on these financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of assurance and consulting. The provision of these other services has not impaired our independence.

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.

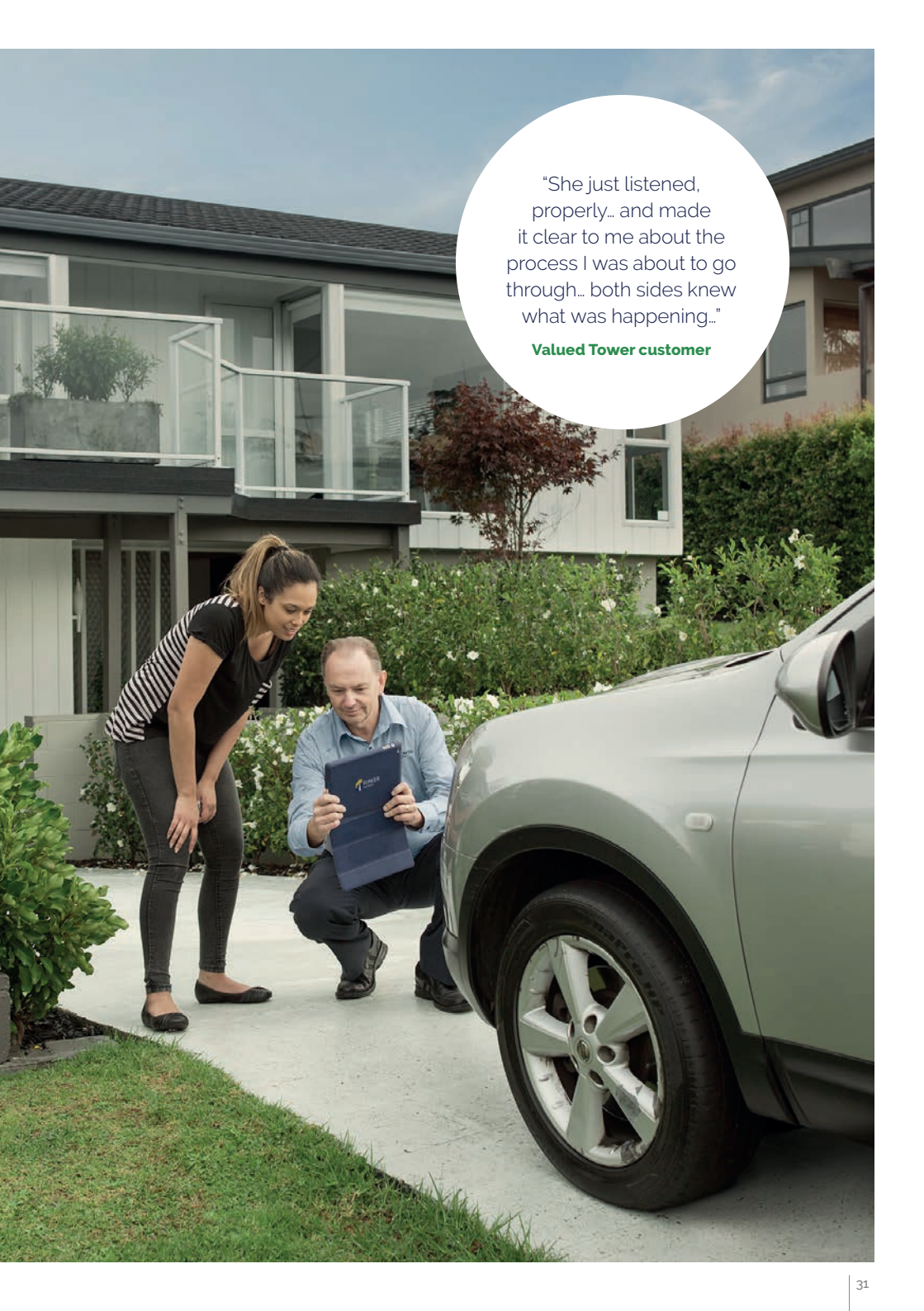
Restriction on Use of Our Report

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.

Chartered Accountants
24 May 2016

Auckland

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A man in a light blue button-down shirt and dark trousers is crouching on a concrete driveway, holding a blue tablet with the 'Valued Tower' logo. A woman in a black and white striped shirt and dark jeans is leaning over him, looking at the tablet. To their right is the front corner of a silver SUV. In the background is a modern two-story house with large windows and a balcony, surrounded by greenery. A white circular callout in the upper right contains a testimonial.

"She just listened,
properly... and made
it clear to me about the
process I was about to go
through... both sides knew
what was happening..."

Valued Tower customer

Tower **Directory**

Board of Directors

Michael Stiasny (Chairman)
Rebecca Dee-Bradbury
David Hancock
Warren Lee
Steve Smith
Graham Stuart

Chief Executive Officer

Richard Harding

Chief Financial Officer

Brett Wilson

Company Secretary

David Callanan

Executive leadership team

Richard Harding
Brett Wilson
Tony Antonucci
David Callanan
Michelle James
Faye Luxton
Glenys Talivai
Glenn Vade

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Australia

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Sydney NSW 2000
Australia

Auditor

PricewaterhouseCoopers

Banker

Westpac New Zealand Limited

Solicitor

DLA Piper New Zealand

Enquiries

For customer enquiries, call Tower
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For investor enquiries:
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Email: investorrelations@tower.co.nz
Website: tower.co.nz

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. On
Wednesday 18 May 2016, Tower's
ASX admission category changed to
"ASX Foreign Exempt Listing".

Registrar

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GPO Box 3329
Melbourne Vic 3000
Freephone within Australia: 1800 501 366
Telephone Australia: +61 3 9415 4083
Facsimile Australia: +61 3 9473 2500

Email: enquiry@computershare.co.nz

Website: investorcentre.com/nz

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.

Financial Markets Conduct Act 2013 – required notice

Under Clause 30, Schedule 4 of the Financial Markets Conduct Act 2013 (FMCA), Tower Limited (Tower) is required to provide the following notice:

Tower Limited of Level 14, 45 Queen Street, Auckland 1010, New Zealand, advises that it has elected to fully transition to the FMCA with effect from 3 June 2016. After that date, all of the requirements of the FMCA will apply to Tower. These requirements include, among other things, financial reporting and fair dealing requirements (to which Tower was subject before 3 June) and Part 4 FMCA requirements relating to Tower's share register.

Notes

Tower Limited Investor Relations

Telephone: +64 9 369 2000

Email: investor.relations@tower.co.nz

Website: tower.co.nz

Registrar

Computershare Investor Services Limited

Freephone within New Zealand: 0800 222 065

Telephone New Zealand: +64 9 488 8777

Freephone within Australia: 1800 501 366

Telephone Australia: +61 3 9415 4083

Email: enquiry@computershare.co.nz

Website: investorcentre.com/nz