

21 March 2013

Market Information  
NZX Limited  
Level 2, NZX Centre  
11 Cable Street  
Wellington  
NEW ZEALAND

Company Announcements Office  
Australian Stock Exchange Limited  
Exchange Centre  
Level 6, 20 Bridge Street  
Sydney NSW 2000  
AUSTRALIA

**TOWER Limited: Annual Meeting Address**

Attached is a copy of the address to the annual meeting of shareholders.

**Bronwyn Walsh**  
Company Secretary & Compliance Manager  
TOWER Limited  
ARBN 088 481 234 Incorporated in New Zealand

## ADDRESSES TO THE TOWER ANNUAL MEETING

21 MARCH 2013

Ladies and Gentlemen

### Strategic review process

The words “strategic review process” have been in regular use by TOWER over the last 12 months. During the period, the company sold both TOWER Health and TOWER Investments, following a comprehensive strategic review conducted by the senior executive team following an unsuccessful bid to purchase AML which would have seen TOWER significantly grow its general insurance business.

The review was with the support of the TOWER Board which was of the view that the full value of TOWER’s operations across four business lines was not reflected in the share price. In other words, TOWER and market commentators saw the sum of the parts value of TOWER’s business units as greater than the market price of TOWER’s shares.

During the course of the review, a thorough investigation into the courses of action available to TOWER was undertaken. In considering the various options, including operational alliances and the divestment of businesses, the underlying objective was to identify opportunities that would create value for shareholders. The strategic review process has been a catalyst for our Board and executives to focus on long term success for our business.

Central to this thinking is the need:

- to be relevant in the markets that we operate in,
- to be excellent at what we do,
- to utilise our capital as efficiently as possible and achieve appropriate returns on this capital,
- to simplify the way we do business wherever possible, and
- to grow in a profitable and sustainable manner.

The insurance sector operating environment now has an increasing level of regulatory requirements, which raise business administration costs and complexity.

On 30 November 2012, we completed the sale of our Health business to nib holdings limited for approximately \$103 million. We will have an ongoing relationship with nib as a distributor of health products for TOWER’s customers.

The decision to sell TOWER Medical Insurance was made because we did not consider that TOWER would be able to achieve the necessary scale or return in this business in the immediate future. Although the Health business was profitable and cash flows were positive, scale is an important factor in determining long-term viability.

After completing the strategic review, it was the Board’s opinion that the value of the business to shareholders was as high as it was going to get without significant investment in change projects. One of the main reasons for this conclusion was that the health insurance market is shrinking, largely due to the fact that an increasing number of New Zealanders simply cannot afford the premiums for health insurance products.

Another factor contributing to the decision to sell the company was that more than 75 percent of the businesses in the health insurance market are not-for-profit organisations and therefore not driven by a need to provide value for shareholders. Given the strong financial and operating performance but lack of growth potential, the time was therefore right to sell the business.

On 26 February 2013, we announced the sale of our Investments business to Fisher Funds for \$79 million. This transaction is due to settle on 2 April 2013. TOWER Investments is also a business that is well managed and profitable.

However, the business does not have large scale distribution arrangements in place which are increasingly necessary to ensure success in a competitive market at a time when margins are being eroded by KiwiSaver. Again, it was concluded that the value of the business would not increase without significant investment in change projects and the decision was therefore taken to sell the business in a competitive process.

### Shareholder returns

The Board is focused on maximising returns to shareholders. The strategic review process has been central to this. Total shareholder returns are measured by the improvement in our share price plus the cash payments back to our shareholders.

A final dividend of 6 cents per share was paid on 1 February 2013, bringing the total dividends for the 2012 year to 11 cents per share. We are proposing making a capital return to shareholders of \$120 million, subject to court and shareholder approval – we will cover this later in the meeting. We are pleased to see the improvement in our share price over the past 12 months, from around the \$1.40 level, to \$1.87 yesterday.

### TOWER's people

Through the past year, TOWER has employed nearly 1,000 people in the business. In a business and economic environment which has been challenging, our people have worked hard to meet our customers' expectations, and to improve our overall business performance.

Group Managing Director Rob Flannagan leads our team and has done so again this past year with strength and determination of purpose. Through his leadership, the TOWER team has been fully engaged in both the strategic review processes and "business as usual" activities. We acknowledge that this is a demanding process and we wish to pay tribute to the skill and continued dedication of our staff. Rob has this morning given his notice of resignation to the Board and we wish to thank him for his immense contribution to TOWER. We will be working closely with him to enable a smooth transition to a new leader for TOWER.

In addition to our staff, TOWER has important support from intermediaries and advisers, many of whom have long standing business relationships with us.

On behalf of the Board, I would like to thank all of TOWER's people for their efforts over the last year, and acknowledge their contribution to our improved profit result.

### Earthquake recovery

Our business is insurance. Our purpose is to provide insurance protection to our customers. When an event occurs, we must respond to their needs in a timely and caring manner. The impact of the

Canterbury earthquakes is ongoing for a great many people, including a number of customers and our employees.

The Board and executives are closely monitoring our progress with customer claims in Canterbury. We are conscious of the need to be fair and timely with claims' settlement, and allowing customers to get on with their lives. The situation is large and complex, with many different organisations and authorities involved in making the rebuild and recovery happen.

TOWER continues to monitor claims provisions. We appreciate the on-going support of our reinsurers. You will be aware from media reports that we have recently had a claim considered by the courts. The case is in fact an industry issue and, as it is before the court, it is not appropriate for us to make comments at this time.

We acknowledge the efforts of our people in managing this difficult situation, as well as the uncertainty and needs of our customers.

### Directors

Over the last year, the Board has been refreshed as signalled at last year's annual meeting, with four new directors being appointed – Graham Stuart, Michael Stiasny, David Hancock and myself. Combined with our longer standing Board members, we have a good mix of skills, knowledge and experience to take the company forward.

As you know, after nearly nine years on the Board, previous TOWER Chairman Bill Falconer decided to stand down in September 2012, to enable a new Chairman to implement the initiatives arising from the strategic review process. We would like to thank Bill for his contribution to the company.

The Board appointed me as Interim Chairman, to lead the Board through a transition phase to this meeting when you would have the opportunity to confirm the election of directors appointed during the year, including myself. Subject to election by you today, I am pleased to advise that the Board has appointed Michael Stiasny as its new Chairman with effect from the conclusion of today's meeting.

As I noted earlier, Susie Staley is retiring from the board after 12 years excellent service to TOWER. Susie has played a key role in the significant corporate changes TOWER has undertaken, including most recently chairing the Due Diligence Committee overseeing the sale of our health and investments businesses, and we farewell her today with much appreciation for her contribution.

With Bill's and Susie's retirements, John Spencer is standing for re-election today. The Board recommends his reappointment for another term as the Company completes the transition into the full prudential supervision and licensing requirements of the Reserve Bank. This transition will include the appointment of independent directors to the boards of the licensed insurance companies in the group.

We are conscious as a Board of the need to continue to consider succession, and the appropriate composition of the Board and senior management, including diversity considerations.

## Conclusion

In conclusion, the Board is comfortable that we have made good progress in the last 12 months, including:

- business operating performance in 2012 was positive,
- the strategic review provided focus for the Board and senior team,
- the execution of the sale of the health business and the conditional sale of the investments business delivered value for shareholders,
- the board has been refreshed

TOWER will continue to assess opportunities to generate additional value for shareholders. TOWER intends to implement corporate, operational and capital structures to focus on optimisation of value. It is anticipated that implementation will be completed within the next few months. We will also focus on planned operational improvements and strategic imperatives to develop an excellent, customer focused business, which can achieve profitable growth.

Whilst there is still much to be achieved, TOWER's financial strength and brand reputation provide us with a sound platform to grow the value of the business.

May I now hand over to Rob Flannagan and Michael Boggs to brief you in detail on the 2012 performance.

---

## **Group Managing Director's Address**

Thank you Mr Chairman. Good morning Ladies and Gentlemen

TOWER continues to operate within a difficult economic environment, but remains profitable, maintains a strong balance sheet and is well positioned for organic growth. Pleasingly, each of the business units – General, Life, Investments and Health - improved performance in 2012 over the previous year.

We have been very focused on improving our engagement with staff, customers and the adviser community, and are seeing this approach translate into solid returns for our shareholders.

The 2012 year was a period of recovery from the Christchurch earthquakes. To date we have closed over 60% of claims and have made payments exceeding \$255 million, with over \$3 million being paid out every week.

Individual claims require careful and detailed management. While we not wish to be in litigation with our customers, there are issues for the whole industry arising from the interpretation of policies that are important for the courts to consider. The involvement of third parties who will receive a percentage of any payment is also a factor. You will have seen this in the media reports from the recent case involving TOWER, where a pre trial claim for a rebuild cost of \$1.3 million was made, in comparison to a 2007 pre earthquake CV of the land and buildings of \$420,000.

The year has been a very busy period for TOWER given the comprehensive strategic review to identify opportunities to deliver long-term benefits to shareholders.

As a direct outcome of the review we have announced the sale of both our Health and Investment businesses.

We have also refreshed the TOWER Board during the year, with four new Directors appointed.

TOWER's net profit after tax for the year ended 30 September 2012 was \$55.8 million, compared to \$33.4 million for the previous year. This is a substantial increase in our financial performance and a result that the Board and executive team was very pleased to deliver to the market.

On the strength of the result the Board announced a final dividend of 6 cents per share, bringing the total dividends for the 2012 year to 11 cents per share.

I will now ask Michael Boggs, TOWER's Chief Operating Officer, to provide further detail.

---

### **Chief Operating Officer's Address**

Thank you Rob and good morning.

I'd like to take you through the results in more detail, beginning with the General Insurance business. The General Insurance business made a profit of \$13.2 million and our underlying business continues to grow. This result includes additional provisions of \$9.4m after tax related to the February 2011 event. This business has recovered well from the Christchurch earthquake events.

Profit from the Life Insurance business excluding the discount rate movement is \$23.7 million - a significant increase of \$4.9 million compared to the same period last year. Premiums have continued to grow and claims experience is favourable during the year. The core insurance business is growing, reflecting insurance profits improving over both 2010 and 2011.

The Investments business profit of \$7.0m is higher than the prior year. This has been achieved by growing external Funds Under Management and controlling management expenses.

The Health Insurance business, which we sold to Australian insurer nib in November, recorded a profit of \$13.3 million – an improvement of \$3.6m on FY11.

Finance and corporate expenses have increased by \$3.6 million compared to the same period last year. This increase predominantly relates to fees incurred in relation to acquisition activity and the strategic review.

So after the impact of the discount rate, our Net Profit after Tax was \$55.8 million.

We continue to wish to pay a dividend each year out of Net Profits earned. This year we have paid a final dividend of 6 cents per share which takes the annual dividend to 11 cents per share. This year's dividends are unimputed. With a return of capital planned, the company's dividend reinvestment plan did not operate for this dividend payment and all shareholders received a cash dividend payment.

Management of solvency in line with the new Insurance Prudential Supervision Regulations is now embedded within the business, as is monitoring by the Reserve Bank. We continue to operate to targets above the minimum to ensure that TOWER's balance sheet remains strong.

Last year we noted that we would make payments of over \$450million relating to Christchurch. To date, \$255 million in payments have been made, fully matched by reinsurance recoveries. We continue to need to focus on the matching of these payments to their recovery from reinsurers, managing the impact on working capital.

Today we are proposing the return of \$120m in capital from the proceeds of the Health sale.

External debt is \$82 million and consists of unsecured bonds which mature in April 2014.

With the sale of the Health and Investments business, which are low capital, cash generating businesses, there is a need to update our Capital Management Plan. This is in progress and is taking into account our current operating environment, the levels of risk relating to catastrophe events, debt structures, and ensuring we deliver the required return on capital for shareholders.

With the challenging economic environment we are focusing on maintaining growth both through new business and customer retention. Success is reflected in the income statement, with premium growth across the business.

Claims are proving a challenge this year. We continue to manage the impact of Christchurch earthquakes, with a small value of new claims flowing through from the December 2011 earthquake. Cyclone Evan, which struck the Pacific islands in December 2012, has impacted our Fiji and Samoa operations by approximately \$4 million. In addition, a high number of small claims in the Life business has meant less claims have been recoverable from reinsurers.

Rising interest rates are impacting on investment returns negatively, given our substantial fixed interest investments.

The strategic review means more costs have been incurred at a corporate level, although these will be offset by the gains on sale.

In summary, positive growth is being offset by claims experience and volatility in investment returns. One-off catastrophe events and costs are also impacting performance.

With the significant change in business operations during the first half of this financial year, it will be important for us to provide a clear explanation of the impact of the changes when we announce our half year results in May. We will also provide further clarity on our planned operational improvements and the future prospects of the business.

*Ends*