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TOWER Limited: Annual Meeting Address

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

Michael Boggs
Chief Financial Officer
TOWER Limited
ARBN 088 481 234 Incorporated in New Zealand



ADDRESSES TO THE TOWER ANNUAL MEETING

5 FEBRUARY 2014

Ladies and Gentlemen

TOWER is now well on the way to becoming the simpler, customer-focused and agile business envisaged at the time of our strategic review.

We have been through a period of considerable change, as we reshaped and resized the operations. However, TOWER remains – and will continue to be – a focused Kiwi general insurer offering an attractive, independent alternative to the big foreign brands.

We delivered a solid result for the year ended 30 September 2013, reporting a \$34.4 million net profit after tax. Importantly, our results reflect a prudent approach to capital management and this will continue to be a key focus of this board.

In May 2013, we identified four areas of immediate focus through the transition to a focused general insurance business.

These were:

- Reducing corporate expenses and maintaining strict cost controls across the business
- Settling the sale of the majority of our Life business and exploring opportunities to divest the remaining Life business
- Completing the board and management structure review
- Adopting and implementing our general insurance business plan in consultation with the new Chief Executive Officer.

We have made good progress in achieving these objectives.

Firstly, we have succeeded in reducing finance and corporate expenses by more than \$3 million with further savings opportunities identified across the business.

The Life sale settled on 1 August 2013 and we have considered options for divesting our remaining Life business. We continue to receive approaches in relation to this business and to consider these.

Finally, David Hancock has developed a management and operating structure that better reflects our needs as a customer-focused general insurer.

Shareholder returns

Our focus remains on delivering strong total shareholder returns supported by efficient operations and an appropriate capital structure.

Over the year we sold three businesses that realised a total of \$370 million and delivered significant cash returns to shareholders.

In addition to the \$120 million returned to shareholders in April 2013, a further \$52 million was returned last month. Shares on issue reduced by 23% as a result of the initial \$120 million capital return and have reduced by a further 14% as a result of the recent voluntary share buy back.

Further capital returns have been identified, the release of which will be subject to the future capital requirements of the business.



TOWER continues to deliver healthy returns to shareholders - an unimputed dividend of 6 cents per share was paid on Monday (3 February) for the six months to September 2013, bringing the annual dividend to an unimputed 11 cents per share.

Reflecting our focus on capital management and shareholder returns, we have confirmed a dividend payout ratio target of 90% to 100% of Net Profit After Tax.

Canterbury earthquake recovery

Canterbury remains an important focus for TOWER. We're pleased to report that TOWER has settled 78% of claims relating to the Canterbury earthquake events – well above the industry average. We remain on track to complete the majority of claims by the end of 2015.

Business strategy and design

Following an extensive global search, in July 2013 we appointed David to the role of Chief Executive Officer and he remains an executive director on the TOWER board.

David and the executive leadership team have worked diligently to develop and begin execution of a refreshed general insurance strategy. We believe this will deliver both a better experience for customers and growing returns for shareholders.

David and his team have very clear key performance indicators (KPIs) which are aligned to TOWER's objective of delivering shareholder value through long-term sustainable growth. We will cover this further later in the meeting.

Directors

As you will be aware, the board structure has been reviewed, and we have made a recommendation to reduce the number of directors to reflect the smaller size of the business. These are part of the Constitutional changes you are able to vote on today.

As part of the ongoing board renewal process, we will continue to ensure the board maintains the appropriate diversity and skills to meet the needs of TOWER's business and good governance.

I would like to thank all the directors for their considerable time and effort over the past year. I would particularly like to acknowledge Mike Allen and Mike Jefferies who retire at this meeting; and John Spencer, who will stand down as soon as a suitable replacement is found, as part of our ongoing board renewal process.

Mike Allen, who is a director of GPG, was appointed to the Board in 2011 and has helped oversee tremendous change during his tenure. Mike is retiring from the Board by rotation, and is not seeking re-election. Mike's extensive management background and focus on shareholder value has made him a valuable asset to the board and I thank him for his contribution.

Mike Jefferies is also retiring by rotation after seven years of dedicated board service. Mike has offered extensive support to senior management and consistently focused on building value for shareholders. I thank Mike for his contribution.

John Spencer, who has served more than 10 years with the business, has provided strong leadership and direction in his previous role as Chair of the Audit and Risk Committee over many years. While John is not leaving us immediately, I would like to formally recognise him at this time.



Conclusion

Following the divestment of Health in 2012, and the sale of Investments and the majority of our Life business in 2013, the transition to a focused general insurance business is now complete and the foundations for growth are in place.

Finally, regarding the impact of consolidation within the New Zealand general insurance market, TOWER strongly believes in competition. However, we do have concerns regarding recent industry developments. We are pleased the Commerce Commission is taking a close look at the proposed IAG acquisition of Lumley, given the implications for New Zealand, the insurance industry and consumers. We believe there is significant risk from one business controlling two thirds of the personal lines market, if New Zealand was to suffer another event on the scale of Canterbury.

All of this could not have been achieved without significant effort from the entire TOWER team. On behalf of the board, I would like to thank them for their support and continued commitment to our customers and shareholders. I would also like to thank you, our shareholders, for your continued support.

I will now hand over to David to brief you in more detail on the 2013 performance and the way forward.

Chief Executive Officer's Address

Thank you Michael. Good morning everyone and welcome, my name is David Hancock. I look forward to meeting many of you after today's formalities.

Financial summary

For the full year ended 30 September 2013, TOWER reported Net Profit After Tax of \$34.4 million. The full year result was impacted by a number of abnormal items related to its divestment programme.

It compares to \$55.8 million Net Profit After Tax in the previous financial year, which included the results for the three businesses that have been sold. The sale proceeds have strengthened our balance sheet and allowed a significant return of capital to shareholders.

After tax profit in 2013 in the General Insurance business was \$19 million, before abnormal items. Earnings in this business declined in 2013, due to weather events in New Zealand and the Pacific, exchange rates and tax. Premium growth provides encouragement that this core business has a positive outlook.

The Investments, Health and Life sales have now all been completed and settled, realising \$370 million. A small part of the Life business has been retained. We continue to provide some operational support to Investments and Life businesses during their transition to full separation. The divested businesses contributed net profit of \$16.9 million in 2013.

In line with our focus on costs, finance and corporate expenses decreased by \$3.2m over the previous year.

There has been a re-assessment of IT systems, taking into account the reduced size of the business, and this was reflected in an increased IT asset write-down in the second half of the year.

General insurance performance

I would like to provide more information on the performance of our general insurance business given this is now our core focus for growing shareholder value.



General Insurance has enjoyed sustained premium growth over the last 3 years and in the 2013 financial year gross earned premiums increased by \$28.3m above those of 2012. Premium growth has more than covered the increased cost of reinsurance that resulted from the impact of Canterbury earthquakes, and affected all insurers in New Zealand.

The loss ratio for 'business as usual' claims remained consistent with last year. However, we experienced \$9.6 million, before tax, of large claim events comprising \$6.8 million in New Zealand from a series of weather events and \$2.8 million from Cyclone Evan in the Pacific.

The Insurance Council of New Zealand has reported that the 2013 costs of extreme weather events are at the highest level since 2004.

Management and sales expenses in General Insurance were \$4.2 million higher than the prior year. However, unfavourable exchange movements accounted for \$2.3m of this increase, with the balance relating to sales expenses reflecting our healthy premium growth. Direct management expenses were in line with last year.

Gross Written Premium

Gross Written Premium, our key measure of revenue for General Insurance, has increased to \$279.3m. New Zealand comprises 80% of this premium and we are in the top four general insurers in our home market, with market share of 4.7%.

We have a robust position in the key Personal Lines insurance market. TOWER's market share for house and contents insurance is 10.5% and 10.3% respectively and we hold a 6.4% share of the personal motor insurance market. This highlights the substantial opportunity available to us that I will address shortly.

We have a strong presence in the Pacific. Papua New Guinea and Fiji, which together make up almost two-thirds of the Pacific Islands' Gross Written Premium, are key growth markets. We have identified opportunities to expand in the region through investment in the TOWER brand and improved customer and partner engagement. The use of technology will also begin to play a more important role across the Pacific Islands.

Both New Zealand and the Pacific Islands present exciting growth opportunities.

Canterbury earthquake recovery

TOWER continues to achieve industry-leading settlement of its claims related to the Canterbury earthquake events. As noted by the Chairman we have settled and closed 78% of all claims, providing many of our customers with greater certainty.

To date we have paid more than \$400 million to customers and suppliers for Canterbury earthquake claims, with over \$3.5 million being paid every week.

House rebuilds and major repairs accelerated in the second half of 2013, and will continue to gain momentum this year.

In 2014 TOWER expects to complete nearly 200 new houses, and to complete more than 300 over-cap repairs, subject to consenting and customer decision time-frames.

We are committed to substantially completing earthquake claims settlement by the end of 2015.



Capital management

We are holding capital within our licensed insurers as part of the Reserve Bank of New Zealand (RBNZ) licensing requirements to cover the risks associated with the Canterbury rebuild. We also hold some additional capital for the run-off of the remaining Life business.

We will continue to work with the Reserve Bank regarding the solvency position and work towards reducing the Minimum Solvency Margin requirements to enable further capital releases in the future.

In addition, we realise that having an effective reinsurance programme in place is critical to the protection of capital and profitability. We continue to look at opportunities to build on the improvements we have already made.

At 30 September 2013 we held \$156.9m of cash and investments in addition to the strong solvency held within the insurance businesses. These funds have been used for the capital return and will be used for debt repayment.

Capital management will be an ongoing focus for TOWER to minimise capital employed, optimise the use of our balance sheet and maximise returns for shareholders.

Growth strategy

In recent months, as the divestment phase has matured, the TOWER executive leadership team has refined our growth strategy to reflect our focus on the core general insurance business as the key driver of shareholder value.

To grow shareholder returns from this platform, we have created a robust strategy underpinned by three key pillars – customer satisfaction, staff engagement and financial performance.

In the longer term, we aim to be recognised as the leading light in New Zealand General Insurance. There is a compelling market opportunity for us given our Kiwi heritage in a market dominated by foreign brands.

Our General Insurance strategy comprises five enablers over the short and medium term that offer us significant opportunity for growth:

- Value added services - reinforcing to our customers the value of their policies and the value of the relationship they have with TOWER
- Product bundling - providing additional value to our customers by bundling together more than one product or service into a “package” of services
- Capital efficiencies – to release capital to fund further growth in the business and enhance shareholder returns
- Direct and alliance sales channels – to provide great service and value to customers and benefit from our alliance partners’ customer bases and distribution scale
- Data insights – to better understand our customers’ risk management needs rather than focusing on “policies”

These enablers provide us with the opportunity to grow our customer base, retain customers and enhance our position as a trusted brand.

Reflecting the strength of our existing talent pool, we are pleased that the majority of key leadership positions and direct reports have been recruited from within TOWER.

We are now monitoring our performance through customer feedback and have observed improvement over the past three months.



I'd like to read a couple of examples that were among those collected in recent weeks – these speak to our new focus:

“My freephone (good start) enquiries were answered promptly and politely and my preferred method of installment payment by phone saved me bother and time.”

“Fast and friendly service, all sorted with just one phone call. Very recommended. Thanks TOWER.”

Our customers are at the heart of our business. Our team is committed to doing everything within our power to make a difference to them, ensuring they stay with us and recommend TOWER to their friends, family and colleagues.

Recent developments and outlook

In January 2014, as expected, capital was repatriated from the sale of our Australian liabilities, which has been incorporated into TOWER's capital management plan.

That month we also advised the market that we would retain TOWER Life (N.Z) Limited. We completed a formal process with a number of interested parties and determined that greater shareholder value would be realised by retaining the business. However we continue to receive approaches about this business, and will continue to evaluate these.

In mid-January Cyclone Ian tore through parts of Tonga. TOWER received only a small number of claims, as the storm left Tongatapu, the heavily-populated main island, relatively unscathed. We have worked closely with our team in Tonga to process these claims as quickly as possible.

The New Zealand general insurance industry remains dynamic. Growth in the New Zealand insurance market (as measured by GWP) is expected to return to levels of around 5%, last seen pre-Canterbury earthquakes.

Industry consolidation continues to be a key long-term theme and, as always, TOWER is prepared to participate in this trend where we can add value for shareholders.

Over the coming year we have a number of strategic priorities to grow our business and drive value to shareholders. These include delivering new products and services into the market, taking advantage of new technologies to deliver benefits to our customers and cost efficiencies.

I'd like to speak specifically about two areas of focus for us – customer retention and our brand.

Since being appointed CEO I have spent a great deal of time connecting with shareholders, staff and customers. This has included visiting our TOWER offices within New Zealand and the Pacific, and engaging with customers from Christchurch to Port Moresby. It's become very evident to me that the battleground for customers will be over service and products. As I've just mentioned, we have implemented a new voice of the customer programme to help generate feedback from customers that will improve the way we do business with them. As a result of this renewed emphasis, we have seen an increase in our key net promoter score measure.

It's also become very clear that we have a very strong and well recognised brand. We want to bring our brand to life and make it more meaningful for our customers. Over the next few months you will see us launch a series of initiatives that build on our brand heritage and connect us to New Zealanders.

As one of New Zealand's most enduring companies, with a 144-year history, we believe customer-focused TOWER continues to offer an attractive alternative to the big foreign-owned brands that dominate the New Zealand insurance market. We intend to capitalise on this position to continue to deliver attractive growth and returns for shareholders.



I would like to thank TOWER employees for their hard work and commitment during a period of significant change and also recognise the invaluable support and counsel provided to me by the board.

Thank you.

I now hand you back to our Chairman.

From the Chairman

I would now like to take the opportunity to answer some questions that have been submitted to us in advance; a number of which have been provided by the New Zealand Shareholders Association on behalf of their membership.

As David noted, at 30 September 2013 TOWER held \$156.9 million of cash and investments, in addition to the strong solvency held within the insurance businesses.

These funds have been used for the recently completed capital return and will be used for debt repayment in the coming months with the balance being used as part of the group's working capital.

Last year we provided earnings and dividends guidance for the current business. Whilst it is early in our financial year, we remain focused on delivering to these targets, adjusted for the current capital and debt position of the company.

A number of shareholders have asked us about selling their small parcel of shares. The board is committed to providing a future opportunity to assist those who wish to divest their small shareholdings and this is actively being planned.

We have also been asked about the key performance indicators of the CEO.

You will note that these are focused on delivering growth and total shareholder returns.

The KPI's are:

Financial Performance measured by Net Profit After Tax,
Capital Adequacy which is linked to maintaining regulated capital positions,
Development of our people,
Delivering on our Target Operating Model, and importantly
Customer Satisfaction, measured by our Net Promoter Score.

Additional focus of the leadership team is given to Gross Written Premium Retention and Staff Engagement levels.

Ends