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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 SHAREHOLDERS MEETING

11 FEBRUARY 2015

Ladies and Gentlemen

TOWER is now a focused general insurer following our multi-year corporate restructure.

Our divestment programme has realised significant value for shareholders. TOWER has returned \$179 million via buybacks and all of the company's debt has been repaid. Total Shareholder Return for the year is 18.1%.

We now have a more efficient and agile business with the resources to take full advantage of the opportunities for growth that we have identified in New Zealand and the Pacific Islands.

TOWER achieved a group net profit after tax (NPAT) of \$23.6 million for the year ended 30 September 2014.

It is particularly encouraging that general insurance underlying net profit after tax grew 32.3% to \$25.1 million in FY2014.

TOWER is – and will continue to be – a focused Kiwi general insurer offering an attractive, independent alternative to the big foreign brands.

We have been successful in increasing the profile of our brand, launching innovative insurance products and improving customer service. These are all important parts of our general insurance growth strategy.

Highlights for FY2014 included an encouraging 79.1% increase in underlying net profit from the Pacific, which we see as a growth engine for the company.

Rebuilding Canterbury remains an important focus for TOWER, the insurance industry, and New Zealand as a whole. Despite remaining an industry leader in claims resolution, with 91% to date settled and closed, risks continue in regard to increasing costs and time delays. The Board is acutely aware of this.

We continue to be on track to achieve 95% settled and closed claims by the end of calendar year 2015.

Our sturdy capital position has allowed the return of \$56.7 million to shareholders through buybacks in January 2014 and September 2014. The September buyback gave shareholders with small holdings a cost-effective way to sell their shares.

You have indicated that dividends remain an important component of shareholder returns. The Board's policy is to pay out 90% to 100% of NPAT as dividends.

In line with this, we declared a final dividend for FY2014 of 8.0 cents per share unimputed. This brought the full year dividend paid to you to 14.5 cents per share, which is a 31.8% increase on the previous year.

Given our capital position, as previously advised, we intend to undertake a further on-market share buyback of up to \$34 million. We expect to be able to release further details this quarter.

We strive to ensure the TOWER Board has the appropriate mix of skills and experience to deliver value for shareholders. During the year we were very pleased to welcome Rebecca Dee-Bradbury as a Director, who will stand for election today.



John Spencer retires by rotation today, and is not seeking re-election. I thank John for his valuable contribution to TOWER over the last 11 years and wish him all the best for his future endeavours.

We have plans to review the Board's performance and continue refreshing it going forward.

On behalf of the Board, I acknowledge the hard work and commitment of all our staff over the past 12 months. I thank CEO David Hancock for his dedication and strong leadership in establishing and executing a strategy for realising our potential in general insurance and enhancing shareholder value. The TOWER team has worked very hard to strengthen this business for the long-term.

I would also today like to acknowledge the contribution of TOWER's Chief Financial Officer, Michael Boggs, who announced in late 2014 that he will be leaving TOWER. Michael has made a significant contribution to the business during his four years with TOWER which included being recognised as CFO of the year at the New Zealand CFO Awards in March 2014. Thank you very much Michael.

Thank you again for your support of TOWER.

I will now hand over to David to brief you in more detail on the 2014 performance and the way forward.

Chief Executive Officer's Address

Thank you Michael. Good morning everyone and welcome, my name is David Hancock. It is terrific to be here today and have the opportunity to meet so many shareholders who are as committed as I am to TOWER.

TOWER has come through a period of significant change and we start 2015 as a pure general insurer. We are stronger, more focused and very well capitalised. This positions us for growth in general insurance in New Zealand and the Pacific.

In November 2014 we announced our annual results. These were encouraging given that the full benefits of the work we are doing to drive revenue, lower costs and lift shareholder returns are yet to be fully realised.

Growth in underlying general insurance profit after tax of 32.3% to \$25.1 million was especially pleasing.

This highlights healthy growth in general insurance, which we see as an attractive business in the region. The results were aided by 6.6% growth in Gross Written Premium, supported by premium increases across the industry.

The Pacific had a strong profit rebound after the losses incurred in 2013 due to Cyclone Evan. We see the Pacific market offering attractive long-term fundamentals, and as a key growth engine of general insurance premiums as we look to build on our unique experience in the region that goes back more than 100 years.

In 2014 we experienced storms and adverse weather in New Zealand that impacted profitability. New reinsurance cover in place from 1 October 2014 has the potential to reduce earnings volatility.

Finally, as the Chairman has mentioned, we declared a final dividend for FY2014 of 8.0 cents per share unimputed. This brought the full year dividend paid to you to 14.5 cents per share, which is a 31.8% increase on the previous year.



One of the milestones during FY2014 was the completion of the sale of our remaining life business, TOWER Life (N.Z.) Limited, in August 2014 for \$36 million. This further release of capital has allowed us to review TOWER's capital structure and with the annual results, we announced our intention to undertake a \$34 million share buyback to occur over the next 12 months.

In November 2013 we began to actively monitor customer interactions through the recording of Net Promoter Score to measure customer satisfaction. This started at 6 in November 2013 and was 29 at the end of the financial year.

As a people-focused business, we know that engaged staff drive a high performance culture and employee efficiency. Staff engagement is one of our three strategic pillars and we have invested heavily in our team over the past year, particularly in developing management capability.

Our focus on customer service, product innovation, staff engagement and cost management is beginning to deliver results. Brand recognition, net promoter score and staff engagement measures have improved markedly in the last 12 months.

The industry continues to see increases in costs with regard to settling claims from the Canterbury earthquakes. For TOWER, these costs continue to be borne by EQC and our international reinsurers.

The Board recognises the ongoing risk regarding these increasing costs and this is a key reason why it remains important for the company to maintain its strong capital position.

The Board takes a close interest in our progress and just last week spent time in Christchurch to experience this first-hand.

As the Chairman noted, we have made solid progress on the Canterbury rebuild, reaching to date 91% of all claims settled and closed for customers to date.

TOWER reviews its earthquake provisions on a quarterly basis. Our quarterly review to December affirmed that there is no change required to the key February 2011 event provisions. However we continue to monitor this closely given the continued risk and time delays.

The Pacific business enjoyed a strong rebound in earnings in FY2014 following the devastation of Cyclone Evan in FY2013 and now represents almost a third of underlying general insurance net profit.

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

To do this, our strategic pillars are financial performance, customer satisfaction and staff engagement.

We have a clear strategy for growth and our approach to building shareholder value seeks to:

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

Based on these strategic themes, we have set a number of ambitious but achievable goals and exciting initiatives in 2015.

We are aiming to make significant further progress on staff engagement, customer service, cost ratios and product innovation in 2015.



We are looking to build on the improvements made to our operating platform and customer culture in FY2014, with a focus on reducing management expenses.

Our staff have been enthusiastic about our move to new offices in both Auckland and Christchurch which better reflect our new direction and high performance culture.

We continue to use Net Promoter Score as a benchmark for customer loyalty. We know that promoters will hold more policies with us, hold higher value policies and stay with us longer. Our goal is to lift NPS to 35 by September 2015.

We also continue to focus on innovation. In 2014 we launched our award-winning SmartDriver app and our full replacement for house fire benefit, which have been very well received. Technological change will continue to have a significant impact on the industry, presenting opportunities to improve our service and offering.

Capital management and shareholder returns remain key strategic outcomes.

We have already spoken about our intention to undertake a further on-market share buyback of up to \$34 million.

You have indicated that dividends remain an important component of shareholder returns. The Board has maintained our policy to pay out 90 to 100% of NPAT as dividends, which supported a more than 30% increase in 2014 dividends.

We continue to be on track to achieve 95% settled and closed Canterbury earthquake claims by the end of calendar year 2015.

With a strong focus on customers and staff, the third pillar of our strategy is financial performance.

Our initiatives are focused on growing Gross Written Premium while reducing overall expense ratios through cost control.

We are exploring opportunities to further expand our presence in the Pacific, which represents growth opportunities aligned to our core strength and competencies.

Industry consolidation is expected to remain a trend in New Zealand insurance. TOWER will look to actively participate in this where there is benefit to shareholders.

We are also working hard to broaden the strong portfolio of alliance relationships to enhance our distribution channels and in December announced a new partnership which will see us become Trade Me's insurance partner. This is in line with our strategy to expand our alliance portfolio and to drive policy growth through digital platforms.

FY2014 was clearly a busy and productive year. It has been a period of significant change but we are now a more focused, nimble and stronger company.

These are still early days in the implementation of our strategy but over the coming years we are expecting to see our hard work delivering revenue growth, lower costs and continued attractive shareholder returns.

Over time this will support the continued recognition of the value of our quality general insurance business and the people that make it great.



I would like to acknowledge the hard work and commitment shown during the year by the leadership team and all of our staff and partners in New Zealand and the Pacific. I would also like to thank the Board for its invaluable advice and support.

Finally, I thank our shareholders and customers for giving us the opportunity to deliver insurance products and services they value and helping make TOWER even stronger.

I'd like to now take the opportunity to share some insights into the innovative technology we're using in Christchurch to help repair earthquake damaged homes, through a short video clip.

Those of you joining us on today's webcast can access the video outside of this presentation via the TOWER website.

From the Chairman

Thank you David.

I would now like to take the opportunity to answer some questions that have been submitted to us in advance:

When are you going to reinstate the DRP that we used to have?

There are no current plans to reinstate the DRP, given the further intended capital return.

Does TOWER Limited place any limit on the number of directorships that a member of the Board may hold?

No, but the expectation is that our directors have appropriate capacity to fulfil their duties and obligations as directors of the company.

I would also like to take this opportunity to remind you of the key performance indicators for the CEO.

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

- Financial Performance measured by net profit after tax
- Capital Adequacy which is linked to maintaining regulated capital positions
- Employee Engagement, measured by our Aon Hewitt staff engagement score
- Customer Satisfaction, measured by our net promoter score
- Shareholder returns measured by total shareholder return

Ends