



26 May 2015

Market Information  
NZX Limited  
Level 2, NZX Centre  
11 Cable Street  
Wellington  
New Zealand

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

**TOWER Limited HY15 Result for announcement to market**

In accordance with NZSX Listing Rules; and ASX Listing Rules 4.3A, I enclose the following for release to the market in relation to TOWER Limited (NZE/ASX: TWR) HY15 Result for announcement to market:

1. Media release
2. Management Review
3. NZX Appendix 1
4. ASX Appendix 4D
5. NZX Appendix 7
6. Director Declaration
7. Financial Statements (including independent Auditor's Report)

This information should be read in conjunction with TOWER Limited's 2014 Annual Report.

TOWER's Chairman Michael Stiasny, Chief Executive Officer David Hancock, and Chief Financial Officer Brett Wilson, will discuss the half year results at 10:00am New Zealand time today.

Brett Wilson  
Chief Financial Officer  
TOWER Limited  
ARBN 088 481 234 Incorporated in New Zealand

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## **TOWER delivers strong underlying earnings and confirms capital management**

TOWER has today reported a 36.4% increase in general insurance underlying net profit after tax (NPAT) to \$17.9 million for the six months ended 31 March 2015.

TOWER's reported net loss after tax of \$4.9 million was impacted by the increased provisions of \$22.6 million after tax for costs associated with the Canterbury earthquake events.

Highlights from HY2015 include:

- Gross Written Premium of \$145.9 million, up 4.9% vs the prior corresponding period (pcp)
- Underlying General Insurance NPAT of \$17.9 million, up 36.4% vs pcp
- Strong performance from the Pacific operations – 86.9% growth in underlying NPAT
- Industry-leading Canterbury progress with 94% of claims settled and closed
- Underlying EPS of 10.0 cents per share (cps), up 103% vs pcp
- Half year dividend 8.5 cps unimputed, up 30.8% vs pcp
- Confirmed on market buy back of up to \$34 million

TOWER Chairman Michael Stiassny said the positive underlying results reflected the industry backdrop of rising premiums and fewer large claims events, as well as the benefits of the company's strategy, which seeks to make TOWER the leading light in New Zealand and Pacific general insurance.

"Rising premiums, stabilising reinsurance costs, favourable weather, Pacific policy growth and prudent capital management have supported underlying shareholder returns," he said.

Mr Stiassny said that sound capital management remained a priority for the TOWER Board.

"We are pleased to confirm today our intention to implement an on market share buyback of up to \$34 million, or up to 10% of TOWER's issued capital, to commence shortly."

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

TOWER Chief Executive Officer David Hancock said that the company had made significant progress implementing its growth strategy in New Zealand and the Pacific during the half year.

"We are very pleased with the improvement in our underlying general insurance profit over the past six months. This reflects an unwavering focus on our three key strategic pillars of financial performance, customer satisfaction and staff engagement, which are critical to TOWER's ongoing success."

"We have been busy implementing our growth strategy: transforming our customer interactions to drive revenue and efficiency, building our digital capability to take us into new distribution channels and increasing our very strong position in the Pacific Rim," he said.



Mr Hancock said that expanding TOWER's portfolio of alliance partners also remained a priority.

"Alliances are an important part of TOWER's growth strategy and a key source of revenue. Consequently we were very pleased to announce in December that an agreement had been signed which will see TOWER become Trade Me's insurance partner," he said.

The Pacific Rim business enjoyed strong earnings growth following the devastation of Cyclone Evan in the previous year, with policy numbers increasing 7.7% compared to the prior corresponding period. The Pacific Rim business represents more than a quarter of TOWER revenues and earnings and offers attractive growth opportunities.

"We are currently preparing to enter the Vanuatu market, which offers a great growth opportunity aligned to our core competencies and experience in the Pacific Rim," Mr Hancock said.

During the half, TOWER made further progress on the Canterbury rebuild, reaching 94% of all claims settled and closed for customers as at 30 April 2015, up from 81% at 31 March 2014. While pleasing progress in claims continues, TOWER has taken the prudent decision to increase provisions following the receipt of the latest actuarial review of projected claims costs.

Mr Hancock said TOWER remained a very well capitalised business and was carrying \$51 million in capital above regulatory minimum solvency requirements and a further \$63m of cash at the corporate level. Capital management would remain a key component of TOWER's approach to shareholder value.

Shareholder value is being driven by a number of key areas:

- Growing gross written premiums, improved customer service and cost control in New Zealand;
- Policy growth in existing and new Pacific markets;
- Enhancing TOWER's operating platform and digital capabilities;
- Exceeding 95% completion on the Canterbury rebuild by the end of 2015; and
- Maintaining strong solvency, paying healthy dividends and where possible returning surplus capital to shareholders.

A disclosure document for the on market share buy back will be sent to all shareholders shortly, ahead of the buy back commencing.

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

ENDS

For further information, please contact:  
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## **TOWER Management Review – Half Year to 31 March 2015**

### **Half Year Highlights & Achievements:**

- Gross Written Premium increased 4.9% to \$145.9 million, aided by rate increases in New Zealand and policy growth in the Pacific
- Underlying General Insurance net profit increased 36.4% to \$17.9 million, supported by premium growth, investment earnings, cost control and a benign claims environment
- Underlying Pacific net profit after tax increased 86.9% to \$5.1 million, assisted by strong policy and premium growth and a reduced loss ratio
- Expanded distribution alliances in New Zealand and the Pacific
- Significant investment in digital capabilities and direct distribution platforms
- Strong progress on Canterbury rebuild with 94% of claims (by volume) and 84% (by value) now settled and closed; on track to exceed 95% by end of calendar year 2015
- Increased certainty in Canterbury with increased reinsurance protection and provisions for claims
- Claims provisions increased by \$31.4 million, which has an after tax impact of \$22.6 million
- Reported net loss after tax (NPAT) of \$4.9 million after additional Canterbury provisions
- Strong solvency maintained with \$51 million in capital above regulatory minimum requirements
- Underlying EPS of 10.0 cents, reflects strength of new focused operating structure
- Half year dividend 8.5 cps (unimputed), up 30.8% from HY2014
- Capital return of up to \$34 million expected to commence following results

### **Building shareholder value**

TOWER achieved a 36.4% increase in Underlying General Insurance NPAT to \$17.9 million<sup>1</sup> for the six months ended 31 March 2015. Following provisions of \$22.6 million after tax relating to the Canterbury earthquakes, TOWER reported a net loss after tax (NPAT) of \$4.9 million.

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<sup>1</sup> HY2014 included \$3.7m of profit from TLNZ and \$1.6 of interest cost relating to bonds which have subsequently been repaid

The positive underlying results reflect the industry backdrop of rising premiums and fewer large claims events and the benefits of the strategy to be the leading light in New Zealand and Pacific general insurance.

During the half, TOWER made significant progress on implementing its growth strategy in New Zealand and the Pacific. Rising premiums, stabilising reinsurance costs, favourable weather, Pacific policy growth and prudent capital management have supported underlying shareholder returns.

Underlying earnings per share (EPS) of 10.0 cents, a returns measure that has been somewhat distorted by several years of corporate restructuring, is now more reflective of the stable pure general insurance operating structure.

The Board announced a half-year dividend of 8.5 cents per share unimputed, compared to 6.5 cents unimputed in the previous year and remains committed to a 90 – 100% payout ratio over the full year. The half-year dividend will be paid on Tuesday 30 June 2015 to shareholders on the register on Friday 12 June 2015.

TOWER confirms that it intends to undertake a further share buy back of up to \$34 million to be acquired on-market and expected to commence following announcement of these financial results.

## Performance

General Insurance	HY15	HY14	Movement %
Gross Written Premium (GWP) (\$m)	145.9	139.2	4.9%
Underlying underwriting profit (\$m)	19.8	13.5	46.1%
Underlying NPAT <sup>1</sup> (\$m)	17.9	13.1	36.4%
New Zealand underlying NPAT (\$m)	12.8	9.8	30.1%
Pacific underlying NPAT <sup>2</sup> (\$m)	5.1	2.7	86.9%
Underlying claims ratio (%)	44.5%	50.4%	
Underlying combined ratio (%)	84.2%	88.3%	
Group			
Underlying net profit after tax (\$m)	17.5	13.8	27.2%
Reported net profit after tax (\$m)	(4.9)	13.1	
Underlying EPS <sup>3</sup> (c)	10.0	5.0	102.6%
DPS (c)	8.5	6.5	30.8%

1. Underlying NPAT excludes Canterbury impacts and discontinued businesses

2. HY14 includes \$0.5m Australia NPAT

3. Profit attributable to shareholders from ongoing operations only and excludes Canterbury impacts

Underlying General Insurance NPAT increased to \$17.9 million in HY2015, an increase of 36.4% on the previous corresponding period.

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

Half year 2015 was busy for TOWER as it further develops its capabilities to become the leading light in general insurance. TOWER has made significant investments in its digital and direct distribution platforms to transform how it interacts with its customers to drive future growth.

During the period, as part of its growth strategy, TOWER merged customer service and sales to drive revenue, service levels and operational efficiency. The implementation of the strategy affected short-term service levels as agents were retrained and roles expanded. TOWER has implemented measures to address service performance and improve customer satisfaction levels to previous levels

TOWER continues to build its brand as a trusted alternative to the major insurers, and a leader in customer service and product innovation. It launched its full replacement for fire benefit in October 2014 and has recently released an updated version of its award-winning SmartDriver app.

The Pacific business enjoyed strong GWP and earnings growth supported by 7.7% policy growth. TOWER is in the process of finalising the preparatory work for entry into the Vanuatu insurance market and continues to explore other Pacific Rim markets.

Expanding the number of TOWER's alliance partners remains a priority. During the half TOWER continued to work on its Trade Me alliance announced in December 2014 and continues discussions with a number of other potential partners.

TOWER made further progress on the Canterbury rebuild, reaching 94% of all claims settled and closed for customers as at 30 April 2015, up from the 81% reported in the previous corresponding period. The company took advantage of its industry-leading Canterbury rebuild progress and improving reinsurance markets to extend reinsurance cover for the main February 2011 earthquake event.

Capital management is a key component of TOWER's approach to shareholder value. In addition to the increased dividend announced today, TOWER confirmed a share buy back of up to \$34 million will commence following the release of these results.

TOWER remains a very well capitalised business and, before ahead of the latest buy back, is carrying \$51m in capital above regulatory minimum solvency requirements in the insurance entity and a further \$63m of cash at the corporate level.

## Group Profit Summary

\$ million	HY15	HY14	Movement \$	Movement %
General Insurance	17.9	13.1	4.8	36.4%
Life <sup>1</sup>	-	3.7	(3.7)	(100.0%)
Business unit net profit after tax	17.9	16.8	1.1	6.5%
Corporate financing costs and investment income	0.7	(1.6)	2.3	(147.0%)
Corporate expenses	(1.1)	(1.4)	0.4	(24.3%)
Profit excluding the impact of discount rate and abnormal items	17.5	13.8	3.7	27.2%
(Loss)/Profit on disposal of subsidiaries	0.2	-	0.2	na
Impact of Canterbury earthquakes	(22.6)	-	(22.6)	na
Net impact of abnormal items	-	(0.7)	0.7	(100.0%)
Reported net profit after tax <sup>2</sup>	(4.9)	13.1	(17.9)	(137.3%)

1. Life includes profits from significant part of life business sold in FY13, and the remaining TLNZ sold in FY14

2. A number of items are classified as discontinued operations in the Group financial statements

The Group's reported net loss after tax of \$4.9 million was impacted by additional provisions for Canterbury claims costs. TOWER determined it was prudent to increase provisions by \$31.4 million which has an after tax impact of \$22.6 million.



TOWER Group underlying net profit (excluding the impact of discount rate and abnormal items) was \$17.5 million in HY2015, an increase of 27.2% on the previous corresponding period. With TOWER's financial statements now reflecting its new corporate structure as a pure general insurer, underlying profit in the General Insurance business approximates the TOWER Group underlying profit. General Insurance underlying profit of \$17.9 million represents an increase of 36.4% on the previous corresponding period.

Group corporate financing costs declined in HY2015 on the previous corresponding half year due to the corporate restructure and repayment of the TOWER bonds. Investment income increased due to higher average cash balances following asset sales in FY2014.

## General Insurance

\$ million	HY15	HY14	Movement \$	Movement %
Gross earned premiums	150.4	139.1	11.3	8.2
Reinsurance	(25.7)	(23.5)	(2.2)	9.4
<b>Net premiums</b>	<b>124.7</b>	<b>115.6</b>	<b>9.1</b>	<b>7.9</b>
Net incurred claims	(55.5)	(53.4)	(2.1)	3.9
Large claim events <sup>1</sup>	-	(4.8)	4.8	(100.0)
Management and sales expenses	(49.5)	(43.9)	(5.5)	12.6
<b>Underwriting profit</b>	<b>19.8</b>	<b>13.5</b>	<b>6.2</b>	<b>46.1</b>
Investment revenue	6.3	5.7	0.6	10.4
<b>Underlying Profit before tax</b>	<b>26.0</b>	<b>19.2</b>	<b>6.8</b>	<b>35.5</b>
Income tax expense	(8.2)	(6.1)	(2.1)	33.6
<b>Underlying Profit after tax</b>	<b>17.9</b>	<b>13.1</b>	<b>4.8</b>	<b>36.4</b>
Impact of Canterbury earthquakes <sup>2</sup>	(22.6)	(0.1)	(22.5)	
Revaluation of Australia liabilities and FX loss <sup>3</sup>	-	(1.2)	1.2	
<b>Profit/(loss) after tax</b>	<b>(4.7)</b>	<b>11.8</b>	<b>(16.5)</b>	

1. Large claim events are those greater than \$1m. 2014 large claim events were due to the storms within New Zealand.

2. In the Group financial statements the impacts of the Canterbury earthquakes are accounted for as part of Claims expense and the tax impact thereon, and include both an increase in the provision for claims and actual claims expense, plus an amount associated with reinsurance.

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

## Financial performance

In General Insurance, Gross Written Premium (GWP) increased 4.9% on HY2014 to \$145.9 million, supported by rate growth in New Zealand and policy growth in the Pacific. Gross earned premiums rose 8.2% to \$150.4 million. Reinsurance costs increased 9.4% and Net earned premiums (NEP) increased 7.9% on HY2014 to \$12 million.

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

The underlying expense ratio (management expenses and commissions to NEP) increased to 39.7% in the half, up from 37.9% in HY2014. TOWER invested in brand, new products and systems to support the business for future growth. The reallocation of expenses due to the new corporate structure also

resulted in increased expenses in General Insurance. TOWER continues to focus on staff engagement, efficiency and the appropriate cost structure to support future growth.

Pacific Rim represents a key growth engine for TOWER and is already a significant business, accounting for 20% of GWP and 28% of General Insurance underlying NPAT in HY2015. In local currencies, GWP increased across the region, and Pacific GWP as a whole grew 14% to \$28.5 million. Underlying net profit after tax from the Pacific increased 86.9% to \$5.1 million driven by a benign claims environment across a number of Pacific territories and premium growth.

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

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

TOWER’s underlying tax rate for the General Insurance business in HY2015 was 31.5%. This rate reflects the average of the New Zealand and Pacific Islands corporate rates after taking into account foreign tax credits arising from transactions with the Pacific subsidiaries.

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

The Company has nearly 488,000 policies and more than 270,000 customers in New Zealand and seven Pacific territories through its own direct business and alliance partnerships. New Zealand Alliance policy numbers declined 7.1% in the half on HY2014 due to the continued expected runoff of the ANZ book.

## **General Insurance priorities during the half**

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

- Enhancing digital capability to support growth in new distribution channels;
- Transforming customer interactions through system and process upgrades to deliver improved customer service, efficiency and revenue;
- Further work on branding and customer innovation; and
- Growing in both established and new Pacific Rim markets.

## **New distribution channels for insurance products**

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

The internet and mobile apps like SmartDriver have become attractive channels for insurers like TOWER to promote and sell insurance products. TOWER is seeking to use technology through the entire policy sales and service cycle to better meet customer needs such as convenience, cost and service.





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

Alliances are an important part of TOWER's growth strategy and a key source of revenue. TOWER has three types of alliance partnerships: alliances with the major banks which allow them to sell insurance on their banking product platforms; customer referral relationships with New Zealand's major networks of financial planners; and as underwriter for a number of specialist insurance agencies.

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

TOWER's investment in digital capabilities and customer service is expected to support and enhance the pursuit of further new alliance opportunities.

### **Transforming customer interactions to drive returns**

Customer retention and growth has been a key strategic pillar of the General Insurance growth strategy. With its renewed focus on customer service in the past 18 months, TOWER has seen very encouraging improvements in key indicators of customer satisfaction. TOWER seeks to deliver an "easy, caring, and individual" relationship with its customers. This approach sees interactions as an opportunity to engage and build a relationship; improve customer retention and extend TOWER's service offering in order to better address customer needs.

A key element of this approach is the introduction of a new service model that reflects the full customer experience and offers both service and sales functions from a single interaction. Merging sales and service provides the opportunity to significantly improve revenue, service levels and operating efficiency.

Implementation of this merger required retraining of all sales and service staff with an expansion of roles to deliver these functions effectively and efficiently. Execution of the strategy and increased training time, affected short-term call wait times, which impacted service levels and observed Net Promoter Score (NPS) in the March 2015 half year.

NPS is a key measure of customer service and engagement. "Promoters" will generally hold more and higher value policies and stay with TOWER longer. NPS increased from a score of just 6 in November 2013, when the programme began, to reach the 20 to 30 range in the last 12 months.

NPS data can be volatile month-to-month, as evidenced by the fall in NPS during the recent staff retaining. However, the trend for TOWER's NPS over the past two years is highly encouraging.

Measures have been adopted to improve service performance including expanding the service team, increased training and process enhancements. Staff engagement has been an important part of TOWER's strategy. A recovery in NPS was seen in April and this is expected to consolidate in the second half. Notwithstanding this, the measure is likely to remain volatile on a month-to-month basis.

### **Unlocking brand potential through product innovation**

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

The app allows TOWER to more efficiently price risk and reinsurance based on the driving data generated from customers. During HY2015, updates to the app have introduced more "gaming" elements designed to further stimulate user engagement.

This development of technology was recognised when TOWER won “Innovation of the Year” at the 2014 New Zealand Insurance Industry Awards.

TOWER also enhanced its reputation as an insurer that listens to customers with the launch of its full replacement fire benefit for New Zealand homes. Fire is the most common cause of the total loss of a home, after natural disasters, yet only about 10 per cent of New Zealanders consider losing their house to fire to be a high risk.<sup>2</sup>

And while house fire claims make up only a small percentage of insurance claims by number, they are costly, being the largest single category of house claims by value. This new insurance product has been strongly recognised in key brand measures.

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

## **Growth in Pacific Rim markets**

In contrast to the consumer focused New Zealand business, the foundation of TOWER’s Pacific business is small to medium enterprise business insurance. TOWER insures thousands of small traders, as well as their businesses, shops and homes. This is augmented in the region by a healthy motor insurance business.

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

During the half year, TOWER made further investments in technology and brand in its established Pacific Island markets. TOWER is currently in the process of upgrading its core policy administration system in the Pacific, which will be an enabler of further policy growth in the region.

Our online presence was significantly enhanced with website launches in Fiji, Papua New Guinea and the Solomon Islands. New alliance partnerships have been implemented with two major Papua New Guinean finance companies, and early sales have been promising.

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

## **Update on Canterbury earthquake rebuild**

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

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

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<sup>2</sup> Horizon Research 2014

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

### **Increased claims allocated to the February 2011 earthquake event**

Properties in Canterbury were affected by four separate earthquake events. For each event, TOWER's reinsurance is limited to various amounts. Projected rebuild costs for the February 2011 earthquake event, which caused the greatest damage, have exceeded TOWER's reinsurance limit for that event of \$325 million, while the other three events remain within their respective reinsurance limits.

The most recent review of cost allocation utilised an expanded sample of properties in order to make projections of outcomes for the remaining earthquake rebuild, resulting in a higher proportion of claims than previously assumed being allocated to the February 2011 event. As the February 2011 event has breached reinsurance limits, any increase in projected claims is borne directly by TOWER.

### **Increased costs related to multi-unit dwellings**

While TOWER has made very good progress in settling and closing claims, moving from 81% in the previous equivalent period to 94% at 30 April 2015, a number of the outstanding claims are more complicated as they relate to multi-unit dwellings. These sites are complicated by the involvement of multiple insurers or in some cases property owners with no insurance cover. As TOWER has progressed work cost projections for these sites have increased.

### **Increased industry costs**

Due to skill and material shortages combined with time delays, building costs in Canterbury are growing faster than anticipated, which has been widely acknowledged by TOWER and the industry. This has impacted projections of future claim costs. In the recent Financial Stability Report the Reserve Bank of New Zealand increased its estimates of total industry Canterbury claims to \$33-38 billion from the previous estimate of \$32-37 billion.

### **Risk management and reinsurance**

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

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

TOWER purchased new reinsurance cover in October 2014 for large events (excluding New Zealand earthquakes). This cover has been designed to protect against the significant storms that have impacted the business over the past 2-3 years. The reinsurance provides cover for events between \$1 million, \$5 million and \$10 million of cover is provided after an aggregate \$5 million of large events has occurred.

TOWER purchased an Adverse Development Cover (ADC) to protect its exposure to further increases in costs related to the Canterbury earthquakes, particularly the February 2011 event. The ADC covers 87.5% of the costs for this event between \$388 million and \$438 million. At the time the policy was written, the \$388 million was \$30 million above the provision levels held for the February 2011 event.



The shift in reinsurance markets has enabled TOWER to reduce risk in the General Insurance business, reducing exposure to volatile large claim events. TOWER continues to examine ways to build shareholder value through improved risk management.

## **Balance sheet and solvency**

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

TOWER has a long term policy of retaining within its licensed General Insurance entity 175% of the Minimum Solvency Capital (MSC) required under the Insurance (Prudential Supervision) Act 2010. As at 31 March 2015, TOWER's actual MSC was \$71 million.

Capital held by TOWER above the regulatory minimum requirement was \$114 million as at 31 March 2015, (\$51 million General Insurance solvency above regulatory minimum plus \$63 million held at corporate).

## **Capital management**

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

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

An on market share buy back of up to \$34 million or 9.99% of the shares outstanding will be carried out over the next 12 months. This buy back will be funded out of excess cash currently in the corporate entities and will not impact insurance solvency. A disclosure document for the on market share buy back will be sent to all shareholders shortly, ahead of the buy back commencing.

The half-year dividend of 8.5 cents per share represents an increase of 30.8% on the previous corresponding period. In line with its current policy TOWER expects to pay out 90-100% of underlying profits for the full year as dividends.

## **Strategy**

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

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

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

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



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

*Unlocking brand potential* - Investment in systems and processes to build a strong and efficient platform for growing the business; build a strong performance culture and improve staff engagement; deliver better cost ratios over the medium term; continue to build service and sales culture to drive revenue while lifting Net Promoter Score; consolidate on our efforts in product innovation and the next phase of the brand campaign to differentiate the offer.

*Alliance growth opportunity* - Enhance digital delivery capability; focus on new initiatives via digital platforms; offer a trusted alternative to the major insurers.

*Leadership in Pacific Rim markets* – Continue campaign to grow market share in established Pacific markets; consolidate and grow new alliances in key markets; continue preparation to enter new locations and broaden growth options.

## Outlook

### Industry

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

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

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

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

### TOWER

The immediate future will see us focusing on these objectives:

- Grow New Zealand GWP, focus on customer service and cost control
- Pursue further growth in Pacific Rim markets
- Enhance operating platform and digital capabilities to support growth
- Exceed 95% completion on Canterbury rebuild by end of 2015
- Maintain strong solvency, pay healthy dividends and where possible return surplus capital
- Buy back of up to \$34 million expected to begin after HY2015 results announcement
- Dividends 90-100% of underlying NPAT

### ENDS



David Hancock  
Chief Executive Officer  
TOWER Limited  
ARBN 088 481 234 Incorporated in New Zealand

Brett Wilson  
Chief Financial Officer  
TOWER Limited  
ARBN 088 481 234 Incorporated in New Zealand

For further information, please contact:

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## HALF YEAR PRELIMINARY ANNOUNCEMENTS AND HALF YEAR RESULTS

### RESULTS FOR ANNOUNCEMENT TO THE MARKET

TOWER LIMITED	
Reporting Period	6 months to 31 March 2015
Previous Reporting Period	6 months to 31 March 2014

	Amounts (000s)	Percentage change
Revenue from ordinary activities	NZ\$ 159,515	7.5% increase
Profit from ordinary activities after tax attributable to shareholders	(NZ\$ 5,088)	150.8% decrease
Net profit attributable to shareholders	(NZ\$ 4,872)	137.1% decrease

Interim Dividend	Amount per security	Imputed amount per security
	NZ 8.5 cents	Nil
Record Date	Friday, 12 June 2015	
Dividend Payment Date	Tuesday, 30 June 2015	

Comments	For the half year to 31 March 2015, TOWER Limited's reported loss from ordinary activities after tax was (\$5.1) million (due to an increase in earthquake provisioning after tax of \$22.6 million). The loss is a decrease of 150.8% from the prior comparable period, when a profit of \$10 million was reported. Net loss after tax for the six month period to 31 March 2015 was (\$4.9) million, including non-controlling interest profit of \$0.4 million. This is down 137.1% from the prior comparable period.
----------	--

Additional Information	TOWER's dividend reinvestment plan will not apply for the interim dividend.
------------------------	---

**Refer attached 31 March 2014 unaudited Financial Statements for TOWER Limited and its subsidiaries and Presentation for more detailed analysis and explanation.**

<b>TOWER LIMITED PRELIMINARY INTERIM REPORT</b>
---

Current Reporting Period 6 months ended 31 March 2015
---

Previous Reporting Period 6 months ended 31 March 2014
--

**RESULTS FOR ANNOUNCEMENT TO THE MARKET**

	Half year 31 March 2015 000's	Movement
Total revenue from ordinary activities	NZ\$ 159,515	7.5%
Profit from ordinary activities after tax attributed to shareholders	(NZ\$ 5,088)	(150.8%)
Net profit attributed to shareholders	(NZ\$ 4,872)	(137.1%)

**INTERIM DIVIDEND**

An interim dividend of NZ 8.5 cents per share has been declared. The Record Date is 12 June 2015. The dividend will have no imputation credits attached and will be paid net of withholding tax (where applicable) on 30 June 2015. No franking credits apply. Participation in TOWER's dividend reinvestment plan will not apply for the interim dividend.

**ADDITIONAL COMMENTS**

For the half year to 31 March 2015, TOWER Limited's reported loss from ordinary activities after tax was (\$5.1) million (due to an increase in earthquake provisioning after tax of \$22.6 million). The loss is a decrease of 150.8% from the prior comparable period, when a profit of \$10 million was reported. Net loss after tax for the six month period to 31 March 2015 was (\$4.9) million, including non-controlling interest profit of \$0.4 million. This is down 137.1% from the prior comparable period.

**Refer attached 31 March 2015 unaudited Financial Statements for TOWER Limited and its subsidiaries and Presentation for more detailed analysis and explanation.**

Notice of event affecting securities

NZSX Listing Rule 7.12.2. For rights, NZSX Listing Rules 7.10.9 and 7.10.10.  
For change to allotment, NZSX Listing Rule 7.12.1, a separate advice is required.

Number of pages including this one  
(Please provide any other relevant  
details on additional pages)

Full name of issuer	TOWER Limited		
Name of officer authorised to make this notice	Brett Wilson	Authority for event, e.g. Directors' resolution	Directors' resolution
Contact phone number	(09) 369 2202	Contact fax number	
		Date	26 / 05 / 2015

<b>Nature of event</b> Tick as appropriate	Bonus Issue <input type="checkbox"/>	If ticked, state whether: Taxable <input type="checkbox"/> / Non Taxable <input type="checkbox"/>	Conversion <input type="checkbox"/>	Interest <input type="checkbox"/>	Rights Issue Renounceable <input type="checkbox"/>
	Rights Issue non-renounceable <input type="checkbox"/>	Capital change <input type="checkbox"/> Call <input type="checkbox"/> Dividend <input checked="" type="checkbox"/>	If ticked, state whether: Interim <input checked="" type="checkbox"/> Full Year <input type="checkbox"/>	Special <input type="checkbox"/>	DRP Applies <input type="checkbox"/>

<b>EXISTING securities affected by this</b>	If more than one security is affected by the event, use a separate form.	
Description of the class of securities	Ordinary shares	ISIN NZTWRE0011S2
		If unknown, contact NZX

<b>Details of securities issued pursuant to this event</b>	If more than one class of security is to be issued, use a separate form for each class.	
Description of the class of securities		ISIN
		If unknown, contact NZX
Number of Securities to be issued following event		Minimum Entitlement
Conversion, Maturity, Call Payable or Exercise Date		Treatment of Fractions
Strike price per security for any issue in lieu or date Strike Price available.		OR provide an explanation of the ranking

<b>Monies Associated with Event</b>	Dividend payable, Call payable, Exercise price, Conversion price, Redemption price, Application money.	
In dollars and cents		Source of Payment
Amount per security (does not include any excluded income)	\$0.085	Retained profits
Excluded income per security (only applicable to listed PIEs)		
Currency	NZD	Supplementary dividend details - NZSX Listing Rule 7.12.7
Total monies	\$0.085	Amount per security in dollars and cents \$0.000000
		Date Payable N/A

<b>Taxation</b>	Amount per Security in Dollars and cents to six decimal places	
In the case of a taxable bonus issue state strike price	\$	Resident Withholding Tax \$0.028050
		Imputation Credits (Give details) \$0.000000
		Foreign Withholding Tax \$
		FDP Credits (Give details) N/A

<b>Timing</b>	(Refer Appendix 8 in the NZSX Listing Rules)	
<b>Record Date 5pm</b> For calculation of entitlements -	12 June, 2015	<b>Application Date</b> Also, Call Payable, Dividend / Interest Payable, Exercise Date, Conversion Date. In the case of applications this must be the last business day of the week.
		30 June, 2015
<b>Notice Date</b> Entitlement letters, call notices, conversion notices mailed		<b>Allotment Date</b> For the issue of new securities. Must be within 5 business days of application closing date.

OFFICE USE ONLY  
Ex Date:  
Commence Quoting Rights:  
Cease Quoting Rights 5pm:  
Commence Quoting New Securities:  
Cease Quoting Old Security 5pm:

Security Code:  
Security Code:





**TOWER Limited**  
**("the Company")**

**Directors' Declaration in respect of TOWER Limited Financial Statements  
for the half-year ended 31 March 2015**

25 May 2015

TOWER provides the following a directors' declaration in respect of the financial statements for the Company for the half year ended 31 March 2015 (which is equivalent to that which would be prepared by an Australian incorporated company under the Australian *Corporations Act 2001* (Cth)).

**Declaration**

The Directors of the Company hereby declare that in the Directors' opinion:

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- the TOWER financial statements for the half year ended 31 March 2015 and the notes to those financial statements:
  - comply with the accounting standards issued by the New Zealand External Reporting Board and applicable to the Company as a New Zealand incorporated company; and
  - give a true and fair view of the financial position and performance of the Company.

This declaration is made in accordance with a resolution of the Directors dated 25 May 2015 and is signed for and on behalf of the Board of Directors by a Director of the Company.

**Signed**

A handwritten signature in black ink, appearing to read "Michael Stiassny", with a large, sweeping flourish at the bottom.

.....  
Michael Stiassny  
Director



**TOWER LIMITED**

**INTERIM FINANCIAL STATEMENTS**

**FOR THE HALF YEAR ENDED**

**31 MARCH 2015**

**TOWER LIMITED**  
**INTERIM FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 MARCH 2015**

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**TOWER LIMITED**  
**CONSOLIDATED INCOME STATEMENT**  
**FOR THE HALF YEAR ENDED 31 MARCH 2015**

		Half year ended	
		31 March 2015	31 March 2014
		Unaudited	Unaudited
	Note	\$000	\$000
<b>Revenue</b>			
Premium revenue from insurance contracts	3	150,398	139,153
Less : Outwards reinsurance expense	3	(25,664)	(23,533)
Net premium revenue		124,734	115,620
Investment revenue	4	7,667	7,939
Fee and other revenue		1,450	1,299
<b>Net operating revenue</b>		<b>133,851</b>	<b>124,858</b>
<b>Expenses</b>			
Claims expense		107,376	98,209
Less : Reinsurance recoveries revenue		(8,791)	(29,135)
<b>Net claims expense</b>		<b>98,585</b>	<b>69,074</b>
Management and sales expenses		41,097	36,608
<b>Net claims and operating expenses</b>		<b>139,682</b>	<b>105,682</b>
Financing costs		-	3,894
<b>Total expenses</b>		<b>139,682</b>	<b>109,576</b>
<b>(Loss) profit attributed to shareholders before taxation</b>		<b>(5,831)</b>	<b>15,282</b>
Tax expense attributed to shareholders' profits		743	(5,257)
<b>(Loss) profit for the half year from continuing operations</b>		<b>(5,088)</b>	<b>10,025</b>
Profit for the half year from discontinued operations	14	-	2,519
Profit from disposal of subsidiaries	14	216	594
<b>(Loss) profit for the half year</b>		<b>(4,872)</b>	<b>13,138</b>
<b>(Loss) profit attributed to:</b>			
Shareholders		(5,262)	12,930
Non-controlling interest		390	208
		<b>(4,872)</b>	<b>13,138</b>
Basic and diluted (loss) earnings per share for continuing operations (cents)		(2.99)	4.96
Basic and diluted earnings per share for discontinued operations (cents)		0.12	1.57

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

**TOWER LIMITED**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE HALF YEAR ENDED 31 MARCH 2015**

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

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

**TOWER LIMITED**  
**CONSOLIDATED BALANCE SHEET**  
**AS AT 31 MARCH 2015**

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

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



Michael P Stiasny  
Chairman

Graham R Stuart  
Director

*The consolidated balance sheet should be read in conjunction with the accompanying notes.*

**TOWER LIMITED**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE HALF YEAR ENDED 31 MARCH 2015**

	Attributed to shareholders					
	Unaudited					
	Contributed equity \$000	Accumulated profit/(loss) \$000	Reserves \$000	Total \$000	Non-controlling interest \$000	Total equity \$000
<b>Half year ended 31 March 2015</b>						
At the beginning of the half year	396,819	42,174	(114,583)	324,410	1,599	326,009
<b>Comprehensive income for the period</b>						
(Loss) profit for the half year	-	(5,262)	-	(5,262)	390	(4,872)
<b>Other comprehensive income</b>						
Currency translation differences	-	-	(461)	(461)	186	(275)
<b>Total comprehensive (loss) income for the period</b>	-	(5,262)	(461)	(5,723)	576	(5,147)
<b>Transactions with shareholders</b>						
Capital repayment plan	(82)	-	-	(82)	-	(82)
Dividends paid	-	(14,060)	-	(14,060)	(500)	(14,560)
Other	-	193	-	193	-	193
<b>Total transactions with shareholders</b>	(82)	(13,867)	-	(13,949)	(500)	(14,449)
<b>At the end of the half year</b>	<b>396,737</b>	<b>23,045</b>	<b>(115,044)</b>	<b>304,738</b>	<b>1,675</b>	<b>306,413</b>
<b>Half year ended 31 March 2014</b>						
At the beginning of the half year	453,935	42,983	(117,103)	379,815	1,262	381,077
<b>Comprehensive income for the period</b>						
Profit for the half year	-	12,930	-	12,930	208	13,138
<b>Other comprehensive income</b>						
Currency translation differences	-	-	(1,232)	(1,232)	(223)	(1,455)
<b>Total comprehensive income (loss) for the period</b>	-	12,930	(1,232)	11,698	(15)	11,683
<b>Transactions with shareholders</b>						
Capital repayment plan	(52,577)	-	-	(52,577)	-	(52,577)
Movement in share based payment reserve	-	44	(44)	-	-	-
Dividends paid	-	(12,432)	-	(12,432)	(146)	(12,578)
Other	-	(10)	-	(10)	-	(10)
<b>Total transactions with shareholders</b>	(52,577)	(12,398)	(44)	(65,019)	(146)	(65,165)
<b>At the end of the half year</b>	<b>401,358</b>	<b>43,515</b>	<b>(118,379)</b>	<b>326,494</b>	<b>1,101</b>	<b>327,595</b>

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

**TOWER LIMITED**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE HALF YEAR ENDED 31 MARCH 2015**

		<b>Half year ended</b>	
		<b>31 March</b>	<b>31 March</b>
		<b>2015</b>	<b>2014</b>
		<b>Unaudited</b>	<b>Unaudited</b>
<b>Note</b>		<b>\$000</b>	<b>\$000</b>
<b>Cash flows from operating activities</b>			
		148,831	146,591
	Premiums received		
	Interest received	8,060	19,520
	Dividends received	5	734
	Investment (expense)/income	(1,010)	10,618
	Income from operating activities	1,450	1,306
	Reinsurance received	73,166	85,838
	Reinsurance paid	(24,575)	(28,863)
	Claims expenses	(151,059)	(180,432)
	Payments to suppliers and employees	(38,868)	(39,401)
	Interest paid	-	(3,475)
	Income tax paid	(1,002)	(2,221)
	<b>Net cashinflow from operating activities</b>	<b>14,998</b>	<b>10,215</b>
9			
<b>Cash flows from investing activities</b>			
	Net receipts from financial assets	(2,656)	10,810
	Receipt for disposal of property, plant and equipment and intangible assets	13	(10)
	Payments for purchase of property, plant and equipment and intangible assets	(13,178)	(3,120)
	Proceeds from sale of subsidiaries	-	(15,078)
	<b>Net cash (outflow) from investing activities</b>	<b>(15,821)</b>	<b>(7,398)</b>
<b>Cash flows from financing activities</b>			
	Capital repayment	(82)	(52,577)
	Dividends paid	(14,060)	(12,441)
	Payment of minority interest dividends	(500)	(146)
	<b>Net cash (outflow) from financing activities</b>	<b>(14,642)</b>	<b>(65,164)</b>
<b>Net (decrease) in cash and cash equivalents</b>			
		<b>(15,465)</b>	<b>(62,347)</b>
	Foreign exchange movement in cash	(264)	(1,058)
	Cash and cash equivalents at beginning of half year	168,062	341,624
	Cash classified as held for sale at beginning of half year	-	8,399
	Cash classified as held for sale at the end of half year	-	(8,656)
	<b>Cash and cash equivalents at end of half year</b>	<b>152,333</b>	<b>277,962</b>

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

**TOWER LIMITED**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 MARCH 2015**

**1. Summary of significant accounting policies**

**Entities reporting**

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

**Statutory base**

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

**Basis of preparation**

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

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

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

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

**Accounting policies**

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

**Cash flows**

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

**2. Impact of amendments to NZ IFRS**

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

**3. Premium revenue**

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



**TOWER LIMITED**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 MARCH 2015**

**4. Investment revenue**

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

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

**5. Provisions**

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

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

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

**Employee benefits**

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

**TOWER LIMITED**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
**FOR THE HALF YEAR ENDED 31 MARCH 2015**

**6. Segmental reporting**

	<b>New Zealand General Insurance Unaudited \$000</b>	<b>Pacific General Insurance Unaudited \$000</b>	<b>Other (Holding companies and eliminations) Unaudited \$000</b>	<b>Total Unaudited \$000</b>
<b>Half year ended 31 March 2015</b>				
<b>Revenue</b>				
Revenue - external	108,675	24,135	1,041	133,851
Revenue - internal	1,776	(1,776)	-	-
<b>Net operating revenue</b>	<b>110,451</b>	<b>22,359</b>	<b>1,041</b>	<b>133,851</b>
 <b>(Loss) profit before income tax</b>	 <b>(11,628)</b>	 <b>6,290</b>	 <b>(493)</b>	 <b>(5,831)</b>
Income tax (expense) credit <sup>(1)</sup>	3,602	(2,993)	134	743
<b>(Loss) profit for the half year from continuing operations</b>	<b>(8,026)</b>	<b>3,297</b>	<b>(359)</b>	<b>(5,088)</b>
 <b>Half year ended 31 March 2014</b>				
<b>Revenue</b>				
Revenue - external	104,192	18,725	1,941	124,858
Revenue - internal	-	-	-	-
<b>Net operating revenue</b>	<b>104,192</b>	<b>18,725</b>	<b>1,941</b>	<b>124,858</b>
 <b>Profit (loss) before income tax</b>	 <b>14,098</b>	 <b>5,150</b>	 <b>(3,966)</b>	 <b>15,282</b>
Income tax (expense) credit <sup>(1)</sup>	(3,835)	(2,437)	1,015	(5,257)
<b>Profit (loss) for the half year from continuing operations</b>	<b>10,263</b>	<b>2,713</b>	<b>(2,951)</b>	<b>10,025</b>
 <b>Segment assets</b>				
31 March 2015 (Unaudited)	552,192	87,265	87,775	<b>727,232</b>
30 September 2014 (Audited)	611,833	82,609	96,154	<b>790,596</b>
 <b>Segment liabilities</b>				
31 March 2015 (Unaudited)	363,128	52,335	5,356	<b>420,819</b>
30 September 2014 (Audited)	406,264	50,380	7,943	<b>464,587</b>

Note:

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

**Description of segments**

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

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

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

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

**TOWER LIMITED**  
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**7. Net assets per share**

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

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

**8. Fair values of assets and liabilities**

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

*(i) Cash and cash equivalents*

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

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

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

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

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

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

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

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

*(iv) Derivative financial liabilities and assets*

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

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

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**8. Fair values of assets and liabilities (continued)**

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

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

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

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

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

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

**TOWER LIMITED**  
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**9. Note to consolidated statement of cash flows**

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

**10. Distributions to shareholders**

**DIVIDEND DECLARED**

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

**11. Solvency requirements**

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

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

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

**TOWER LIMITED**  
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**12. Impact of Canterbury earthquakes**

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

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

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

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

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

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

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

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

**TOWER LIMITED**  
**NOTES TO THE INTERIM FINANCIAL STATEMENTS**  
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**13. Subsequent events**

**Declaration of dividend**

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

**Return of Capital**

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

**14. Discontinued operations/disposal groups held for sale**

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

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

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

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

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



## ***Independent Review Report***

To the shareholders of TOWER Limited

### ***Report on the Interim Financial Statements***

We have reviewed the accompanying group financial statements of TOWER Limited (“the Group”) on pages 3 to 15, which comprise the condensed statement of financial position as at 31 March 2015, and the condensed statement of comprehensive income, the condensed statement of changes in equity and the condensed statement of cash flows for the six month period ended on that date and selected explanatory notes.

### ***Directors’ Responsibility for the Financial Statements***

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

### ***Our Responsibility***

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

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

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

### ***Conclusion***

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





## ***Independent Review Report***

TOWER Limited

### ***Restriction on Distribution or Use***

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

A handwritten signature in blue ink that reads "PricewaterhouseCoopers".

Chartered Accountants  
25 May 2015

Auckland