

# HALF YEAR REPORT

FOR THE SIX MONTHS  
ENDED 31 MARCH 2006



# HIGHLIGHTS | ↓

All figures in this half year report unless stated otherwise are in New Zealand Dollars.

## \$1 billion

Total in-force premium grew by 24% to \$1.0 billion.

## Strong performance

Strong operating performance from the businesses in New Zealand, Australia and the Pacific Islands.

## \$32.5 million

Net profit after tax increased 55% to \$32.5 million.

## Improvement in cost

Significant improvement in cost to income ratios in all businesses.

## PrefSure

Acquisition of PrefSure strengthened TOWER's competitive position in Australia.

## New business growth

New business growth well in excess of market growth in Australian life and New Zealand health businesses.

## 69%

Adjusted earnings per share of 9.0 cents, up 69%.

# CHAIRMAN AND GROUP MANAGING DIRECTOR'S REVIEW

## Dear Shareholder

We are pleased to report a strong six months' result with good improvements in both the operating and financial performance of TOWER Limited. This was a continuation of the momentum seen in 2005.

TOWER achieved operating earnings from continuing activities of \$28.1 million, up 25% from the previous corresponding half year. Investment earnings increased 38% to \$14.5 million and corporate and interest expenses decreased 15%. This resulted in an increase of 55% in net profit after tax for TOWER to \$32.5 million for the six months ended 31 March 2006 (\$21.0 million in the previous corresponding period).

TOWER's acquisition of PrefSure, which was announced in late January 2006, was settled at the end of the period on 31 March 2006. The two businesses combined create the third largest life insurance provider in Australia with a broad based distribution network including Independent Financial Advisers, Master Trust platforms, Industry Funds, Corporates and third party alliance partners.

The two businesses are complementary. TOWER is stronger in individual life business whereas PrefSure is stronger in the combined master trust and group life insurance market. The close alignment of the two businesses will allow TOWER to leverage off the strong combined market position to underpin future growth, realise synergy benefits, capitalise on efficiency gains and take advantage of PrefSure's investment in technology.

TOWER's goal is to be the leader in each of its selected insurance and investment markets in Australia, New Zealand and the Pacific Islands. The very essence of TOWER's competitive strategy is around:

- Being a specialist in its selected markets
- Strong service and product competency
- Capable, committed people creating and taking advantage of opportunities

- Strong distribution relationships with third parties and alliances
- Cost effective business models
- Achieving shareholder returns in excess of 15% per annum

TOWER has three areas of particular competency that drive value for shareholders:

- 1. Manufacturing insurance products** – TOWER looks to be the leader in product innovations and design in life, health, investment and general insurance products
- 2. Partnering with distribution and alliance partners** – TOWER looks to structure arrangements that achieve success for both parties and encourage the growth of the relationship
- 3. Packaging and investing financial assets on behalf of clients** – TOWER has a strong investment management capability in New Zealand and expertise in investment product design and packaging

Progress with operational and strategic initiatives was clearly evident in the half year results of TOWER's businesses and provided a platform from which to build stronger future results.

## AUSTRALIA

TOWER Australia achieved a net profit after tax of \$21.5 million for the six months ended 31 March 2006, up 13% on the previous corresponding period (\$19.0 million). This result included 25% growth in operating earnings (excluding investment income) to \$13.4 million and good momentum in the key drivers of the business – sales growth, business retention and cost control. In-force premium grew 21% to A\$290.2 million and growth rates are expected to be positive in the second half of the year with initiatives for new business growth and lapse reductions being implemented.

New business sales increased by 10% to A\$38.4 million compared with the same six

months in 2005, with sales of the higher margin individual term new business increasing 17%. TOWER Australia is working on initiatives through both the traditional Independent Financial Adviser distribution channel and through alternative channels such as mortgage brokers, health insurers, accountants and financial planners, to ensure that new business growth continues.

Overall lapse rates in the business continued to trend down and life lapses were 13% compared with 14% in the previous corresponding period. TOWER Australia expects the positive trend in lapse rate reductions to continue as it implements sophisticated management information systems that can detail lapse issues at a product, adviser and dealer level and develops reward programmes with Independent Financial Advisers and Dealerships that align with longer term growth targets.

TOWER Australia continues to work on productivity improvements and expense management. Its cost to income ratio reduced from 62% in the previous corresponding period to 60% for the six months ended 31 March 2006. The business is on track with a number of initiatives to ensure that productivity improves by 10% per annum. These include further streamlining the new business application process and automating manual work flows.

TOWER in Australia has become a strong and competitive life insurance business, enjoying good growth and improving returns. The recent acquisition of PrefSure has further strengthened TOWER's competitive position in Australia with a 10% market share in the individual life insurance market (based on in-force premiums) and 17% market share of group life insurance. The Australian life insurance market is an attractive growth market and provides a unique opportunity for TOWER to build shareholder value by leveraging its expertise and market leading position.

## NEW ZEALAND

TOWER has been steadily rebuilding staff capability, service levels and overall competitiveness in its New Zealand businesses as it has worked to rectify the service and business complexity issues which impacted performance in 2005. The improvement in operating performance seen in the six months ended 31 March 2006 enables TOWER to turn its attention to restoring strong sales growth in New Zealand through both growing the market for insurance and managed funds investments and growing TOWER's share of these markets.

corresponding period (\$3.9 million). The six month period saw steady growth in the business with operating margins aided by the lack of any significant weather related events within either New Zealand or the Pacific Islands. The stronger performance was a direct result of portfolio growth, pricing changes, more prudent underwriting and improved expense management. The cost to income ratio for the business improved from 81% to 74%.

Net premium growth of 5% to \$81.9 million for the period was in line with market growth. TOWER has a 10% market share of personal lines such as home, contents, motor vehicle and travel insurance and a number three market position. In the Pacific Islands, TOWER has a significant market share in each of the areas it operates. The Pacific Islands business undertakes selective risk based underwriting and as a result has consistently enjoyed good underwriting performance.

Investing in business-to-business partnering skills to underpin current business partnerships, commencing a new advertising campaign to drive more direct sales and a continued improvement in operating margins through strong product management and pricing are the key initiatives for this business in the second half year.

## INVESTMENTS

TOWER's New Zealand Investment business achieved a net profit after tax for the six months ended 31 March 2006 of \$2.8 million, up 47% from the previous corresponding period (\$1.9 million). Business simplification initiatives helped reduce management expenses and the cost to income ratio improved from 88% to 80%.

The business operates in wholesale and retail funds management and individual and group superannuation. TOWER ranks fourth in overall funds under management and



Olaf O'Duill

Chairman



Jim Minto

Group Managing  
Director

## HEALTH & LIFE INSURANCE

TOWER's Health & Life business achieved a net profit after tax for the six months ended 31 March 2006 of \$11.1 million, up 35% from the previous corresponding period (\$8.2 million). This result reflected improved health product pricing initiatives and better claims management which flowed through into the health book's operating margins and relatively strong operating margins from the life business. Compared to the same period last year, the cost to income ratio for the business improved from 62% to 56%. Operating margins are expected to improve further in the future through quality underwriting, stronger sales and better business retention.

TOWER had \$106 million of in-force health insurance and \$50 million of in-force life insurance premium at 31 March 2006. This represents a 14% market share by revenue (16% of lives covered) in the New Zealand health insurance market where it is the second largest health insurer and a 5% market share in the life insurance market. TOWER is positioning itself with intermediaries as a specialist Health insurer with product extension in Life insurance. Developing new distribution opportunities, the development of aligned distribution channels to support growth and improving business retention in the Life business are priorities for this business in the second half of the year, with resources committed to drive this.

## GENERAL INSURANCE & DIRECT

TOWER's General Insurance & Direct business achieved a net profit after tax for the six months ended 31 March 2006 of \$5.2 million, up 33% from the previous

second in superannuation in the New Zealand market. It had funds under management at 31 March 2006 of \$5.4 billion.

TOWER continues to perform strongly in the wholesale market, with the investment team generally beating industry benchmarks and also delivering risk adjusted industry leading returns.

Revenue growth in the Investment business will be driven by taking advantage of TOWER's position as a market leading wholesale asset manager. Maintaining this competitive edge through superior performance will be a priority as will releasing better margins through continued simplification of the business model and business growth.

#### OUTLOOK

TOWER has set 5 key operating objectives to deliver against by 2008:

1. **Growth** – business growth 50% greater than the market
2. **Distribution capability and breadth** – diversified distribution across multiple channels
3. **Retention** – customer and business retention higher than the market
4. **Productivity** – 10% per annum improvement
5. **Shareholder returns** – return on equity of 15% per annum

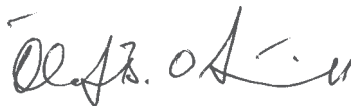
Strategic and operating plans for the businesses are in place to achieve these objectives and current progress is encouraging.

TOWER has been rebuilding value for shareholders in recent years and this has been reflected in the share price. TOWER is in a strong financial position and has sufficient cash reserves and free cash flows from its businesses to consider a resumption of dividend payments. The Board is hopeful of a positive distribution announcement by

the end of 2006 and is currently reviewing alternative methods to maximise the value of tax credits and more efficiently structure returns to shareholders.

The first half of the 2006 year was a further step forward for TOWER as it competitively rebuilds and targets increased return on capital.

Thank you for your interest in and support of TOWER.



Olaf B O'Duill  
Chairman



Jim Minto  
Group Managing Director



Keith Barton

Incoming Chairman

### Tribute to retiring Chairman – Olaf O'Duill and welcome to incoming Chairman – Keith Barton

From 30 June 2006 Mr Olaf O'Duill steps down as Chairman of TOWER Limited and retires at the same time from the Board.

Olaf was appointed Chairman in early 2003 and has led the recovery of TOWER from the losses announced in late 2002 and overseen the significant change programme that has restored TOWER's prospects and delivered strong value to shareholders.

I would like to publicly acknowledge Olaf's substantial contribution. This was a major commitment in every respect. There was little one might call "normal business as usual" about this remediation. It was about renewal of almost all aspects of the company and its governance structures.

On behalf of fellow Directors and speaking for myself and the staff of TOWER, I express thanks and sincere appreciation for the contribution and commitment Olaf has made. We wish him well in his retirement.

Olaf's successor as Chairman is Dr R (Keith) Barton. Keith has been a TOWER Director since 2000 and is a very experienced, senior Director and Chairman. I am pleased to welcome him to the position of Chairman.

Jim Minto  
Group Managing Director

# CONSOLIDATED INCOME STATEMENT

FOR THE  
 HALF YEAR ENDED  
 31 MARCH 2006

( New Zealand dollars in thousands )

	Note	Consolidated Half Year ended	
		31 March 2006	31 March 2005
		Unaudited	Unaudited
<b>Continuing operations</b>			
Premium revenue from insurance contracts	2	328,769	288,493
Less : Outwards reinsurance expense	2	(51,771)	(38,778)
Net premium revenue		276,998	249,715
Investment revenue	3	295,247	223,593
Fee and other revenue	4	31,867	26,331
<b>Net operating revenue</b>		<b>604,112</b>	<b>499,639</b>
Claims expense		172,394	179,625
Less : Reinsurance recoveries revenue		(29,187)	(28,589)
Net claims expense		143,207	151,036
Change in life insurance contract liabilities		10,400	(7,181)
Change in life investment contract liabilities		170,483	118,825
Management and sales expenses		196,427	182,724
<b>Net claims and operating expenses</b>		<b>520,517</b>	<b>445,404</b>
Financing costs		9,806	9,325
Share of net profits from associates and joint ventures		21	-
<b>Profit before taxation</b>		<b>73,810</b>	<b>44,910</b>
Income tax expense		40,859	23,682
<b>Profit from continuing operations</b>		<b>32,951</b>	<b>21,228</b>
Profit from discontinued operations		-	78,418
<b>Profit for the half year</b>		<b>32,951</b>	<b>99,646</b>
Profit attributable to minority interests		(491)	(285)
<b>Profit for the half year attributable to shareholders</b>		<b>32,460</b>	<b>99,361</b>
		NZ cents	NZ cents
Basic earnings per share <sup>(1)</sup>		9.03	24.98
Basic earnings per share on discontinuing operations <sup>(1)</sup>		-	19.72
Basic earnings per share on continuing operations <sup>(1)</sup>		9.03	5.34

Note: <sup>(1)</sup> Earnings per share is based on the weighted average of 359.3 million (2005: 397.8 million) fully paid equivalent shares on issue.

# CONSOLIDATED BALANCE SHEET

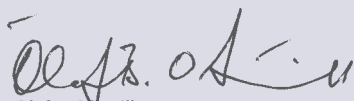
AS AT  
 31 MARCH  
 2006

( New Zealand dollars in thousands )

	Consolidated		
	31 March 2006	30 September 2005	31 March 2005
	Unaudited	Audited	Unaudited
<b>Assets</b>			
Cash and cash equivalents	30,202	15,724	18,718
Receivables	267,429	209,870	200,908
Financial assets at fair value through profit or loss	4,992,248	4,466,489	4,195,388
Available for sale financial assets	2,912	49,817	–
Deferred acquisition costs	135,450	133,700	134,314
Current tax asset	50,687	57,637	61,011
Other assets	97	97	120
Property, plant and equipment	15,576	14,873	75,711
Assets arising from reinsurance contracts	165,121	22,298	22,684
Deferred tax asset	94,415	74,968	89,488
Intangible assets	216,819	160,013	158,093
<b>Total assets</b>	<b>5,970,956</b>	<b>5,205,486</b>	<b>4,956,435</b>
<b>Liabilities</b>			
Payables	421,918	383,983	293,120
Current tax liabilities	27,661	10,132	5,692
Provisions	34,919	29,572	25,109
Interest bearing liabilities	119,516	2,893	10,921
Insurance provisions	257,204	243,956	239,127
Deferred tax liability	105,412	70,298	64,944
Other liabilities	34,987	46,881	61,422
Deferred revenue liability	121,035	117,778	117,962
Life insurance contract liabilities	1,445,511	1,164,895	1,145,119
Life investment contract liabilities	2,595,328	2,391,565	2,277,570
Capital bonds / notes	197,200	196,595	195,991
<b>Total Liabilities</b>	<b>5,360,691</b>	<b>4,658,548</b>	<b>4,436,977</b>
<b>Net Assets</b>	<b>610,265</b>	<b>546,938</b>	<b>519,458</b>
<b>Equity</b>			
Contributed equity	913,368	911,772	910,519
Retained profits	(380,765)	(410,549)	(419,490)
Reserves	74,198	42,550	21,369
Total equity attributed to shareholders	606,801	543,773	512,398
Minority interests	3,464	3,165	7,060
<b>Total Equity</b>	<b>610,265</b>	<b>546,938</b>	<b>519,458</b>
	NZ \$	NZ \$	NZ \$
Net asset backing per share	1.70	1.52	1.45
Gearing <sup>(1)</sup>	34.17%	26.73%	28.49%

Note: <sup>(1)</sup> Gearing is defined as total debt to total debt plus equity.

The financial statements were approved for issue by the Board on 24 May 2006.



Olaf B O'Duill

Chairman



John Spencer

Director

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE  
 HALF YEAR ENDED  
 31 MARCH 2006

( New Zealand dollars in thousands )

	Consolidated Half Year ended	
	31 March 2006	31 March 2005
	Unaudited	Unaudited
<b>Total equity at the beginning of the half year</b>	<b>546,938</b>	<b>543,552</b>
Profit for the half year	32,460	99,361
Movements in retained profits:		
Post-acquisition retained earnings of liquidated subsidiaries	(2,676)	–
<b>Total movements in retained profits</b>	<b>(2,676)</b>	<b>–</b>
Movements in reserves:		
Movement in exchange differences on translation of foreign operations	32,075	5,839
Realisation of FCTR on liquidated subsidiaries recognised in profit	(618)	–
<b>Total movements in reserves</b>	<b>31,457</b>	<b>5,839</b>
<b>Total recognised income and expense for the half year</b>	<b>61,241</b>	<b>105,200</b>
Transactions with equity holders in their capacity as equity holders:		
Shares issued	1,596	1,170
Cost of share-based payments	191	1,121
Distribution of Australian Wealth Management Limited shares <sup>(1)</sup>	–	(130,990)
Change in minority interest	299	(595)
<b>Movements in equity for the half year</b>	<b>63,327</b>	<b>(24,094)</b>
<b>Total equity at the end of the financial half year</b>	<b>610,265</b>	<b>519,458</b>

Note: <sup>(1)</sup> Shares in Australian Wealth Management Limited were transferred to existing TOWER shareholders and 55.7 million TOWER Limited shares were cancelled as part of this separation of the Australian Wealth Management business in February 2005.

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE  
HALF YEAR ENDED  
31 MARCH 2006

( New Zealand dollars in thousands )

	Note	Consolidated Half Year ended	
		31 March 2006	31 March 2005
		Unaudited	Unaudited
<b>Cash flows from operating activities</b>			
Premiums received		388,328	346,135
Interest received		69,248	58,600
Dividends received		21,524	17,667
Investment income		25,752	57,589
Non-life company fee income		40,237	71,412
Claims expense		(324,277)	(307,175)
Payments to suppliers and employees		(194,368)	(199,174)
Interest paid		(9,965)	(7,705)
Income taxation received/(paid)		(5,726)	(4,658)
<b>Net cash inflow / (outflow) from operating activities</b>	6	<b>10,753</b>	<b>32,691</b>
<b>Cash flows from investing activities</b>			
Net receipts / (payments) for financial assets <sup>(1)</sup>		17,027	(147,474)
Proceeds from disposal of business		–	97,089
Payments for purchase of property, plant and equipment		(500)	(2,671)
Payment for controlled entity net of cash acquired		(129,562)	–
<b>Net cash inflow / (outflow) from investing activities</b>		<b>(113,035)</b>	<b>(53,056)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issue of equity share capital		1,596	1,170
Borrowings received / (repaid)		116,482	670
<b>Net cash inflow / (outflow) from financing activities</b>		<b>118,078</b>	<b>1,840</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>15,796</b>	<b>(18,525)</b>
Cash and cash equivalents at beginning of half year		12,831	35,463
Effect of exchange rate change on cash and cash equivalents		260	80
<b>Cash and cash equivalents at end of half year</b>		<b>28,887</b>	<b>17,018</b>
<b>Comprising:</b>			
Cash at bank		30,202	18,718
Bank overdraft		(1,315)	(1,700)
		<b>28,887</b>	<b>17,018</b>

Note: <sup>(1)</sup> TOWER considers that knowledge of gross receipts and payments is not essential to understanding certain activities of TOWER and it is considered acceptable to report only the net changes in cash flows for these items. This is based on the fact that either, the turnover of these items is quick, the amounts are large and the maturities are short or in the case of property, plant and equipment the value of the sales are immaterial.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE  
HALF YEAR ENDED  
31 MARCH 2006

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been applied to all the periods presented, unless otherwise stated.

### BASIS OF PREPARATION

This general purpose financial report for the interim half year reporting period ended 31 March 2006 has been prepared in accordance with the NZ IAS 34 'Interim Financial Reporting', New Zealand Companies Act 1993 and the Financial Reporting Act 1993.

This interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly this report is to be read in conjunction with the annual report for the year ended 30 September 2005 and any public announcements made by TOWER Limited during the interim reporting period.

### COMPLIANCE WITH IFRSs

This general purpose financial report has been prepared in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS). Compliance with NZ IFRS ensures that the consolidated financial statements and notes of TOWER Limited comply with International Financial Reporting Standards.

This is the first financial report to be prepared in accordance with NZ IFRS and comparatives for the half year ended 31 March 2005 and year ended 30 September 2005 have been restated accordingly. NZ IFRS 1 'First time adoption of New Zealand Equivalents to International Financial Reporting Standards' has been applied when preparing these financial statements with the following elections:

- Business combinations – carrying value of goodwill as at 30 September 2004 is deemed to be the cost
- Share based payments – NZ IFRS has only been applied to equity instruments granted after 7 November 2002 that had not vested on or before 1 January 2005.

Reconciliations and descriptions of the effect of transition from previous NZ GAAP to NZ IFRS on the Group's equity and net income are provided in Note 10.

The financial statements have been prepared on a fair value basis with any exceptions noted in the accounting policies below.

### PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of TOWER Limited ("company" or "parent entity") as at 31 March 2006 and the results of all subsidiaries for the half year then ended. TOWER Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all those entities over which the consolidated entity has control, being the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the consolidated entity controls another entity.

The results of any subsidiaries acquired during the half year are consolidated from the date on which control is transferred to the consolidated entity and the results of any subsidiaries disposed of during the half year are consolidated up to the date control ceases.

The acquisition of controlled entities is accounted for using the purchase method of accounting.

The share of net assets of controlled entities attributable to minority interests is disclosed separately in the balance sheet and income statement.

Intercompany transactions and balances between Group entities are eliminated on consolidation.

### INVESTMENT IN ASSOCIATES

Investment in associates are accounted for in the parent entity financial statements using the cost method and in the consolidated financial statements using the equity method, after initially being recognised at cost. An associate is an entity that the consolidated entity has significant influence, but not control, over (usually accompanied by shareholdings of between 20 and 50 per cent).

### PRINCIPLES UNDERLYING CONDUCT OF LIFE INSURANCE BUSINESS

The life insurance operations of the Group comprise the selling and administration of contracts which are classified as either life insurance contracts or life investment contracts. Contracts that include both investment and insurance elements are separated into these two elements and reported accordingly.

Life insurance contracts involve the acceptance of significant insurance risk. Insurance risk is defined as significant if and only if an insured event could cause an insurer to pay significant additional benefits in any scenario, excluding scenarios that lack commercial substance. Insurance contracts include those where the insured benefit is payable on the occurrence of a specified event such as death, injury or disability caused by accident or illness. The insured benefit is either not linked or only partly linked to the market value of the investments held by the life insurer, and the financial risks are substantially borne by the life insurer. Any products that do not meet the definition of a life insurance contract are classified as life investment contracts.

Life investment contracts include investment-linked contracts where the benefit amount is directly linked to the market value of the investments held. While the underlying assets are registered in the name of the life insurer and the investment-linked policy owner has no direct access to the specific assets, the contractual arrangements are such that the investment-linked policy owner bears the risks and rewards of the investment performance. The life insurer derives fee income from the administration of investment-linked policies.

Participating policyowner benefits, both vested and unvested, are treated as expenses when incurred and liabilities until paid.

#### SPECIFIC ACCOUNTING POLICIES

##### (A) PREMIUM REVENUE

###### *Life Insurance Contracts*

Premiums on life insurance contracts are separated into their revenue and deposit components. Where it is not practicable to split out the two components all premiums have been recognised as revenue. Where policies provide for the payment of amounts of premiums on specific due dates, such premiums are recognised as revenue when due. Unpaid premiums are recognised as revenue only during the days of grace or where secured by the surrender values of the policies concerned. Other premiums are recognised as revenue on a cash received basis.

###### *Life Investment Contracts*

Under life investment contracts the life companies receive deposits from policyholders which are then invested on behalf of the policyholders. No premiums are recognised as revenue. Fees deducted from members accounts are accounted for as fee revenue.

###### *General Insurance*

Premium revenue is recognised in the period in which the premiums are earned during the term of the contract.

The proportion of premiums not earned in the income statement at the reporting date is recognised in the balance sheet as unearned premium liability.

Premiums on unclosed business are brought to account using estimates based on the previous year's actual unclosed business with due allowance made for any changes in the pattern of new business and renewals.

##### (B) FEE AND OTHER REVENUE

Fee revenue on investment contracts and other services provided by the Group is recognised in the period the services are provided.

##### (C) INVESTMENT REVENUE

Investment revenue is recognised as follows:

###### *Dividends and distributions*

Revenue is recognised when the right to receive payment is established. Dividends are recorded as income at the date the shares become "ex-dividend".

###### *Property Income*

Property income is recognised on an accrual basis.

###### *Interest Income*

Interest income is recognised on an effective interest method.

###### *Realised Gains/Losses on Investment Assets*

Realised gains/losses on investment assets represent the difference between the carrying amount of the asset and the net proceeds received on disposal of the asset.

###### *Unrealised Gains/Losses on Investment Assets*

Unrealised gains/losses represent changes in the fair value of financial assets and investment property recognised in the period.

##### (D) CLAIMS EXPENSE

###### *Life Insurance Contracts*

Claims are recognised when the liability to a policyholder under a life insurance contract has been established or upon notification of the insured event. Claims are separated into their expense and withdrawal components. Claims on risk business are treated as an expense and are recognised when a liability to the policyholder is established.

###### *Life Investment Contracts*

There is no claims expense in respect of investment contracts. Surrenders and withdrawals which relate to life investment contracts are treated as a movement in life investment contract liabilities. Other claim amounts are similar to withdrawals and as such do not relate to the provision of services or the bearing of risk. Accordingly, they are not expenses and are treated as movements in life insurance contract liabilities.

###### *General Insurance Contracts*

Claims expenses are recognised when claims are notified.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE  
HALF YEAR ENDED  
31 MARCH 2006

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (E) BASIS OF EXPENSE APPORTIONMENT

All operating expenses in respect of life insurance or life investment contracts have been apportioned between policy acquisitions, policy maintenance and investment management expenses with regard to the objective when incurring the expense and the outcome achieved.

The apportionment process is adopted by applying the following methodology:

- (i) Expenses that can be directly identifiable and attributable to a particular class of business are not apportioned. Expenses directly attributable to the ordinary and superannuation participating and non-participating classes of business are apportioned based on appropriate cost drivers.
- (ii) Commission expenses that cannot be allocated to a class of business, for example volume bonuses, are apportioned on the basis of new business and renewal commissions of each class, allowing for limits implied by the basis of adviser remuneration.
- (iii) Investment expenses are apportioned to the classes of business on the mean balance of assets under management.
- (iv) Other expenses that cannot be allocated to a particular class of business are apportioned to the classes of business based on appropriate cost drivers, including number of new policies issued and related premiums, number of new units issued, mean balances of assets under management, average number of policies in-force and time and activity based allocations.

### (F) POLICY ACQUISITION COSTS

Policy acquisition costs comprise the fixed and incremental costs of acquiring new business, including commission, advertising, policy issue and underwriting costs, agency expenses and other sales costs. Acquisition costs are initially recorded in the income statement, with any amounts to be deferred then taken to the balance sheet as a Deferred Acquisition Cost (DAC).

The actuary, in determining the life insurance contract liabilities, takes account of the deferral and future recovery of acquisition costs which are capitalised by way of movement in life insurance contract liabilities, then amortised over the period in which they will be recoverable.

Deferred acquisition costs are recognised for the products noted below.

#### *Superannuation and Medical Products:*

The initial costs of establishing contracts for certain superannuation and medical products are deferred. These costs are amortised over the periods of expected future benefit. A comparison to recoverable value is carried out annually, with any variance below carrying value taken to the income statement in that year.

#### *General Insurance Products:*

Acquisition costs incurred in obtaining general insurance contracts are deferred and recognised as assets where they can be reliably measured and where it is probable that they will give rise to premium revenue that will be recognised in subsequent reporting periods.

Deferred acquisition costs are amortised systematically in accordance with the expected pattern of the incidence of risk under the general insurance contracts to which they relate. This pattern of amortisation corresponds to the earning pattern of the corresponding premium revenue.

#### *Life Investment Contracts*

Incremental costs incurred in acquiring a life investment contract are deferred, as an asset on the balance sheet, and amortised over the periods of expected future benefit.

### (G) OUTWARDS REINSURANCE

Premiums ceded to reinsurers under reinsurance contracts are recorded as an outwards reinsurance expense and are recognised over the period of indemnity of the reinsurance contract. Accordingly, a portion of outwards reinsurance premium is treated at balance date as a prepayment.

### (H) FINANCING COSTS

Financing costs include interest on external debt (borrowing costs), the impact from hedging borrowing costs and amortisation of transaction costs.

### (I) TAXATION

#### *Current Tax*

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

#### *Deferred tax*

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities settled, based on the tax rates enacted or substantively enacted for each jurisdiction. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences or unused tax losses can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial

recognition (other than in a business combination) of the other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are not recognised for temporary differences arising on investments in controlled entities where the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

*Income tax for investment contracts and life insurance contracts business*

The income tax expense recognised in the income statement reflects tax imposed on shareholders as well as policyholders. Arrangements made with some superannuation funds results in TOWER making payments to the Australian Taxation Office (ATO) in relation to contributions tax arising in those funds. The amounts paid are classified as claims expense.

*Income tax for other business*

The income tax expense for all other business is the tax payable on taxable income for the current period, based on the income tax rate for each jurisdiction and adjusted for changes in deferred tax assets and liabilities attributable to temporary differences and unused tax losses.

*Tax Consolidation*

TOWER Limited and its New Zealand wholly-owned subsidiaries comprise a New Zealand tax consolidated group of which TOWER Limited is the head entity. In Australia, Andric Pty Limited is the head entity of the tax consolidated group comprised of Andric Pty Limited and its wholly-owned subsidiaries. Prefsure Holdings Limited is not part of the tax consolidated group.

Under tax consolidation the head entity assumes the following balances from subsidiaries within the tax consolidated group:

- current tax balances arising from external transactions recognised by entities in the tax-consolidated group which occurred after implementation date; and
- deferred tax assets arising from unused tax losses and unused tax credits recognised by entities in the tax-consolidated group which occurred after implementation date.

Assets and liabilities which arise as a result of balances transferred from entities within the tax consolidated group to the head entity are recognised as related party balances receivable and payable in the balance sheet. The recoverability of balances arising from tax funding agreements is based on the ability of the tax-consolidated group to utilise the amounts recognised by the head entity.

*GST*

All revenues, expenses and assets are recognised net of goods and services taxes (GST) except where the GST is not recoverable. In these circumstances the GST is included in the related asset or expense. Receivables and payables are reported inclusive of GST. The net GST payable to or recoverable from the tax authorities as at balance date is included as a receivable or payable in the balance sheet.

Cashflows are included in the Cashflow Statement on a gross basis and the GST component of cashflows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cashflows.

(J) FOREIGN CURRENCY

*Functional and presentation currencies*

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates. The consolidated Group financial statements are presented in New Zealand dollars.

*Transactions and balances*

In preparing the financial statements of the individual entities transactions denominated in foreign currencies are translated into the reporting currency using the exchange rates in effect at the transaction dates. Monetary items receivable or payable in a foreign currency, including forward exchange contracts, are translated at reporting date at the closing exchange rate.

Translation differences on non-monetary items such as financial assets held at fair value through profit or loss are reported as part of their fair value gain or loss.

Exchange differences arising on the settlement or retranslation of monetary items at year end exchange rates are recognised in the income statement.

*Consolidation*

For the purpose of preparing consolidated financial statements the assets and liabilities of subsidiaries with a functional currency different to the Company are translated at the closing rate at the balance sheet date. Income and expense items for each subsidiary are translated at a weighted average of exchange rates over the period, as a surrogate for the spot rates at transaction dates. Exchange differences are taken to the Foreign Currency Translation Reserve and recognised in the Statement of Changes in Equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign operation are treated as assets and liabilities of the foreign operation and are translated at the closing rate with movements recorded through the Foreign Currency Translation Reserve in the Statement of Changes in Equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the income statement.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE  
 HALF YEAR ENDED  
 31 MARCH 2006

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (K) CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand and deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities on the balance sheet.

### (L) RECEIVABLES

Receivables are recognised initially at fair value. Due to the short term nature of these assets the recoverable value, i.e. allowing for doubtful debts, will generally be the fair value.

### (M) PROPERTY, PLANT AND EQUIPMENT

#### *Owner Occupied Property*

Where the whole or a significant proportion of a property owned by the Group is held for use by the Group, the property is classified as owner-occupied property.

Owner occupied property is initially recorded at cost including transaction costs and subsequently carried at the revalued amount. The revalued amount is the fair value at the date of valuation less any subsequent depreciation or impairment. Fair value is determined on a consistent basis with investment property assets.

#### *Plant and Equipment*

Plant and equipment is initially recorded at cost including transaction costs and subsequently measured at cost less any subsequent accumulated depreciation and impairment losses. Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of any residual amounts, over their useful lives.

The assets' useful lives are reviewed and adjusted if appropriate at each balance date. An asset's carrying amount is written down immediately to its recoverable amount if it is considered that the carrying amount is greater than its recoverable amount.

### (N) ASSETS BACKING INSURANCE BUSINESSES

The Group has determined that:

- all assets held within the statutory funds of the life insurance companies are assets backing the policy liabilities of the life insurance business;
- all assets within the general insurance companies are held to back general insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries; and
- all assets within the health insurance company are held to back health insurance liabilities, with the exception of property, plant and equipment and investments in operating subsidiaries.

As these assets are managed under the Group's Risk Management Statement on a fair value basis and are reported to the Board on this basis, they have been valued at fair value through profit or loss wherever the applicable standard allows.

#### *Financial assets*

Financial assets are classified as at fair value through profit or loss. Initial recognition is at cost and subsequent measurement is at fair value. Fair value is determined as follows:

- Cash assets and bank overdrafts are carried at face value which approximates fair value;
- Shares, fixed interest securities, options and units in trusts listed on stock exchanges are valued at the quoted bid price of the instrument at balance sheet date;
- Unlisted fixed interest securities are recorded at amounts based on valuations using rates of interest equivalent to the yields obtainable on comparable traded investments at balance date;
- Unlisted unit trusts are recorded at fund managers' quoted redemption prices;
- Receivables are carried at book value, which is the best estimate of fair value as they are settled within a short period;
- Directly held investment property, which is property held to earn rentals and/or for capital appreciation and is not occupied by the Group, is carried at fair value supported by independent valuations carried out six monthly.

#### *Non-financial assets*

Owner occupied properties are measured at fair value with movements in fair value recognised directly in equity.

### (O) OTHER FINANCIAL ASSETS

Other financial assets are carried at historic cost.

### (P) INTANGIBLES

#### *Goodwill*

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of the entity acquired, at the date of acquisition.

Following initial recognition, goodwill on acquisition of a business combination is not amortised but is tested for impairment bi-annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with NZ IFRS 14 Segment Reporting.

Any impairment is recognised immediately.

On disposal of an entity the carrying value of any associated goodwill is included in the calculation of the gain or loss on sale.

#### *Other intangibles*

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

The present value of in-force business (PVIF) of acquired insurance contracts is recognised at cost and amortised over the useful life of the acquired policies.

#### (Q) IMPAIRMENT OF ASSETS

Assets that have an indefinite useful life are not subject to amortisation and are tested semi-annually for impairment. Assets with a definite useful life are subject to amortisation and reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

#### (R) ACQUISITION OF ASSETS

Identifiable assets acquired and liabilities assumed in business combination are measured at fair value at acquisition date with any excess of cost over the fair value of the net assets acquired recognised as goodwill on the balance sheet.

If there is negative goodwill then this is recognised directly in the income statement.

#### (S) DERIVATIVE FINANCIAL INSTRUMENTS

All derivatives are recognised at fair value through profit or loss.

#### (T) LEASED ASSETS

##### *As lessor*

Rental income on operating leases is recognised as income in the periods the services are provided and the amounts are receivable.

Initial direct costs incurred in initiating the lease are added to the carrying value of the leased asset and amortised on a straight line basis over the term of the lease.

##### *As lessee*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Operating lease payments are recognised as an expense in the periods the services are received over the period of the lease.

Benefits received and receivable for entering into an operating lease are recognised on a straight line basis over the term of the lease.

#### (U) BORROWINGS

Interest bearing debt and overdrafts are initially measured at fair value, net of transaction costs incurred and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings.

#### (V) PAYABLES

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unsettled.

#### (W) PROVISIONS

Provisions are only recognised when the Group has a present legal or constructive obligation as a result of a past event or decision, and it is more likely than not that an outflow of resources will be required to settle the obligation. Provisions are recognised at the best estimate of future cash flows discounted to present value where the effect is material.

#### (X) EMPLOYEE ENTITLEMENTS

Provision is made for employee entitlements for services rendered up to the balance date. This includes salaries, wages, bonuses, annual leave and long service leave, but excludes share-based payments. Liabilities arising in respect of employee entitlements expected to be settled within 12 months of the reporting date are measured at their nominal amounts. All other employee entitlements are measured at the present value of the estimated future cash outflows to be made in respect of services provided up to the balance date. In determining the present value of future cash outflows, discount rates used are based on the interest rates attaching to government securities which have terms to maturity approximating the terms of the related liability.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE  
HALF YEAR ENDED  
31 MARCH 2006

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

### (Y) CAPITAL GUARANTEES

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of host contracts and the host contracts are not measured at fair value with changes in fair value recognised in the income statement.

TOWER provides capital guarantees to certain funds. Where these are assessed to be embedded derivatives, a financial liability is recognised to the value of such liabilities.

### (Z) LIFE INVESTMENT CONTRACT LIABILITIES

Investment contract premiums are separated into their revenue and deposit components.

#### *Financial Instrument Liability*

The deposit element is initially recognised at fair value. Fair value is determined by estimating the amount payable under the contract for any premiums received less any current or future exit penalties.

The fair value is measured as the higher of the current surrender value and an estimate of the discounted future maturity benefit payable in respect of that deposit.

The current surrender value is the amount which the contract holder is entitled to receive upon immediate surrender. This equates to the premiums received less any surrender penalties.

When calculating the discounted future maturity benefit, the surrender penalty is calculated per the terms of the contract. For regular premium contracts the calculation is based on a discounted cash flow that incorporates the ultimate total redemption less future deposits receivable. The resulting surrender penalty differs to the penalty that would be applied if the contract immediately lapsed leading to a different financial instrument liability.

The deposit element, or financial instrument liability, is subsequently measured at fair value, with any change in value being recognised in the income statement.

#### *Deferred Revenue Liability (DRL)*

Accounting standards contemplate a situation where there is a difference between the consideration (premiums) received from a policyholder and the sum of the fees and Financial Liability recognised upon receipt. As there are few entry fees, the focus for TOWER is the difference between the premium and the increase in the Financial Liability.

Accounting standards define this as part of the Management Services Element (MSE).

The difference between the consideration received and the fair value of the deposit element relates to future management services revenue and is initially recognised on the balance sheet as Deferred Revenue Liability (DRL).

Fees received are deferred and recognised as revenue over the life of the contract.

### (AA) LIFE INSURANCE CONTRACT LIABILITIES

The financial reporting methodology used to determine the value of life insurance contract liabilities is referred to as Margin on Services (MoS).

Under MoS the excess of premium received over claims and expenses ('the profit margin') is recognised over the life of the contract in a manner that reflects the pattern of risk accepted from the policyholder ('the service'), hence the term Margin on Services. The movement in life insurance contract liabilities recognised in the Income Statement reflects the planned release of this margin.

Life insurance contract liabilities are ordinarily determined using a projection method, whereby estimates of policy cash flows (premiums, benefits, expenses and profit margins to be released in future periods) are projected into the future. The policy liability is calculated as the net present value of these projected cash flows using best estimate assumptions about the future. When the benefits under the life insurance contract liability are linked to the assets backing it, the discount rate applied is based on the expected future earnings rate on those assets. Where the benefits are not linked to the performance of the backing assets, a risk free discount rate is used. The risk free discount rate is determined by the Appointed Actuary based on the government bond rate, or the inter bank zero coupon mid swap rates, depending on the nature, structure and term of the contract liabilities.

The assumptions used in the calculation of the policy liabilities are reviewed at each reporting date.

### (AB) GENERAL INSURANCE LIABILITIES

Outstanding claims are measured at the central estimate of the present value of expected future payments after allowing for inflation and superimposed inflation and discounted at the risk free rate.

The expected future payments include those in relation to claims reported but not yet paid, claims incurred but not yet reported (IBNR), claims incurred but not enough reported (IBNER) and anticipated claims handling costs. Claims handling costs include costs that can be associated directly with individual claims, such as legal and other professional fees, and costs that can only be indirectly associated with individual claims, such as claims administration costs. In addition a risk margin is added to the claims provision to recognise the inherent uncertainty of the central estimate.

Provision has been made for the estimate of claim recoveries from third parties in respect of general insurance business.

Liability adequacy testing is performed in order to recognise any deficiencies in the income statement arising from the carrying amount of the unearned premium liability less any related deferred acquisition costs and intangible assets not meeting the estimated future claims under current insurance conditions. Liability adequacy is performed at a portfolio level of contracts that are subject to broadly similar risks and are managed together as a single portfolio.

(AC) CONTRIBUTED EQUITY

Ordinary shares issued by the Group are classified as equity and are recognised at fair value less direct issue costs.

(AD) SHARE BASED PAYMENTS

The Group issues share-based compensation packages to senior executives as part of their remuneration packages.

*Share options vesting on or after 1 October 2004*

These options are measured at fair value at grant date and expensed on a straight-line basis over the period during which the employee becomes unconditionally entitled to the options, based on the estimate of shares that will eventually vest. Fair value at grant date is measured using a binomial model, taking into account the specific conditions of the options issued. The determination of fair value excludes the impact of any non-market vesting conditions which are allowed for in assumptions about the number of options that are expected to be exercisable. When an expense is recognised there is an equal and opposite entry made to the share option reserve in equity. When the options are exercised the receipt of the exercise price is transferred to share capital.

Where there is a tax deduction allowable in relation to the share option scheme this is recognised in the income statement, to the extent of the tax credit commensurate to the expense recognised in the income statement, with the balance reported through the share option reserve in equity.

Where terms are changed during the period that increase the cost of the options then this is recognised over the remaining vesting period. Where terms are changed during the period that decrease the cost of the options then there is no change to the expense recognised.

(AE) SEGMENT REPORTING

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

A geographical segment is engaged in providing products or services within a particular economic environment and is subject to risks and returns that are different to those of segments operating in other economic environments.

(AF) EARNINGS PER SHARE

*(i) Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

*(ii) Diluted earnings per share*

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE  
 HALF YEAR ENDED  
 31 MARCH 2006

( New Zealand dollars in thousands )

	Consolidated Half Year ended	
	31 March 2006	31 March 2005
	Unaudited	Unaudited
<b>2. PREMIUM REVENUE</b>		
Life insurance premiums	191,512	161,095
Life investment premiums	111,806	108,326
Total premiums	303,318	269,421
Less: Deposits recognised as an increase in policy liabilities	(110,898)	(106,336)
<b>Life insurance premiums recognised as revenue</b>	<b>192,420</b>	<b>163,085</b>
General insurance premiums	85,973	81,926
Health insurance premiums	50,376	43,482
	<b>328,769</b>	<b>288,493</b>
Less Reinsurance ceded	(51,771)	(38,778)
<b>Total net premium revenue</b>	<b>276,998</b>	<b>249,715</b>

## 3. INVESTMENT REVENUE

### Fixed interest

Interest	69,334	57,657
Realised (losses)/gains	(14,048)	(2,012)
Unrealised (losses)/gains	10,127	(4,908)
<b>Total investment revenue from fixed interest</b>	<b>65,413</b>	<b>50,737</b>

### Equities

Dividend income	22,529	24,024
Realised gains/(losses)	37,721	32,431
Unrealised gains/(losses)	173,829	79,997
<b>Total investment revenue from equities</b>	<b>234,079</b>	<b>136,452</b>

### Property

Rents, interest and recoveries	9,665	9,260
Realised gains/(losses)	3,109	6,799
Unrealised gains/(losses)	15,854	4,460
<b>Total investment revenue from property</b>	<b>28,628</b>	<b>20,519</b>

### Other investment revenue

Realised gains/(losses)	(4,979)	13,369
Unrealised gains/(losses)	(27,894)	2,516
<b>Total other investment revenue</b>	<b>(32,873)</b>	<b>15,885</b>
<b>Total investment revenue</b>	<b>295,247</b>	<b>223,593</b>

## 4. FEE AND OTHER REVENUE

### Continuing operations

Investment and management fees	28,071	24,425
Other revenue	3,796	1,906
<b>Total continuing operations</b>	<b>31,867</b>	<b>26,331</b>

### Discontinued operations

Other revenue	-	19,038
<b>Total discontinuing operations</b>	<b>-</b>	<b>19,038</b>
<b>Total fee and other revenue from continuing operations</b>	<b>31,867</b>	<b>26,331</b>

## 5. SEGMENTAL REPORTING

( New Zealand dollars in thousands )

Business Segments	Consolidated					Total
	TOWER Australia Risk & Investment	TOWER NZ Health & Life	TOWER NZ Investments	TOWER General Insurance	Other (Holding companies)	
<b>2006</b>						
<b>Profits from operations</b>						
Operating margins	14,574	9,441	3,243	2,681	(2,176)	27,763
Investment return on Shareholder capital	8,105	1,722	206	2,476	1,994	14,503
Financing costs	(1,268)	–	(758)	–	(7,780)	(9,806)
<b>Profits continuing operations</b>	<b>21,411</b>	<b>11,163</b>	<b>2,691</b>	<b>5,157</b>	<b>(7,962)</b>	<b>32,460</b>
Profits from discontinued operations	–	–	–	–	–	–
<b>Profits including discontinued operations</b>	<b>21,411</b>	<b>11,163</b>	<b>2,691</b>	<b>5,157</b>	<b>(7,962)</b>	<b>32,460</b>
<b>Revenue</b>						
Segment revenues	361,876	123,679	24,758	90,590	3,209	604,112
<b>Revenue from continuing operations</b>	<b>361,876</b>	<b>123,679</b>	<b>24,758</b>	<b>90,590</b>	<b>3,209</b>	<b>604,112</b>
Revenue from discontinued operations	–	–	–	–	–	–
<b>Total revenue including discontinued operations</b>	<b>361,876</b>	<b>123,679</b>	<b>24,758</b>	<b>90,590</b>	<b>3,209</b>	<b>604,112</b>

( New Zealand dollars in thousands )

Business Segments	Consolidated					Total
	TOWER Australia Risk & Investment	TOWER NZ Health & Life	TOWER NZ Investments	TOWER NZ General Insurance	Other (Holding companies)	
<b>2005</b>						
<b>Profits from operations</b>						
Operating margins	11,785	7,438	2,764	2,364	(4,924)	19,427
Investment return on Shareholder capital	8,375	1,087	79	1,473	(173)	10,841
Financing costs	(1,052)	–	(889)	–	(7,384)	(9,325)
<b>Profits continuing operations</b>	<b>19,108</b>	<b>8,525</b>	<b>1,954</b>	<b>3,837</b>	<b>(12,481)</b>	<b>20,943</b>
Profits from discontinued operations	5,463	–	–	–	72,955	78,418
<b>Profits including discontinued operations</b>	<b>24,571</b>	<b>8,525</b>	<b>1,954</b>	<b>3,837</b>	<b>60,474</b>	<b>99,361</b>
<b>Revenue</b>						
Segment Revenue	277,355	105,735	24,369	87,662	4,518	499,639
<b>Revenue from continuing operations</b>	<b>277,355</b>	<b>105,735</b>	<b>24,369</b>	<b>87,662</b>	<b>4,518</b>	<b>499,639</b>
Revenue from discontinued operations	19,871	–	–	–	15,415	35,286
<b>Total revenue including discontinued operations</b>	<b>297,226</b>	<b>105,735</b>	<b>24,369</b>	<b>87,662</b>	<b>19,933</b>	<b>534,925</b>

### DESCRIPTION OF SEGMENTS

TOWER Australia Risk & Investment includes all life and disability insurance and retail wealth management services in Australia.

TOWER NZ Health & Life includes all health and life insurance services in New Zealand.

TOWER NZ Investments includes all wealth management services in New Zealand.

TOWER NZ General Insurance includes all general insurance services in New Zealand and the Pacific Islands.

Other includes head office expenses, financing costs and eliminations.

# NOTES TO THE FINANCIAL STATEMENTS

FOR THE  
 HALF YEAR ENDED  
 31 MARCH 2006

( New Zealand dollars in thousands )

	<i>Consolidated</i>	
	31 March 2006	31 March 2005
	Unaudited	Unaudited
<b>6. NOTE TO THE CONSOLIDATED STATEMENT OF CASHFLOWS</b>		
<b>Reconciliation of operating cashflows to profit</b>		
Net profit for the half year after tax	32,460	99,361
Add non-cash items:		
Unrealised (gain) / loss on financial assets	(171,937)	(82,065)
Depreciation	2,577	7,769
Net policy liabilities and bonuses	102,133	43,170
Changes in net assets and liabilities, net of effects from acquisition/disposal of businesses:		
Receivables	3,122	36,544
Current tax provisions	20,791	5,152
Deferred tax	14,342	(2,361)
Creditors	7,265	(74,879)
<b>Net operating cashflows</b>	<b>10,753</b>	<b>32,691</b>

## 7. DISCONTINUED OPERATIONS

### (A) DESCRIPTION

On 30 March 2006 TOWER Limited disposed of the following controlled entities:

Tower Adelaide Pty Limited  
 Lymquoir Pty Limited  
 Tower Life Properties Pty Limited  
 Tower Victoria Pty Limited  
 Tower Direct Pty Limited  
 AdviserBLUE Pty Limited  
 Tower eCommerce Pty Limited  
 Tower Group Network (Australia) Pty Limited  
 Tower Staff Superannuation Limited  
 FAI Life Limited  
 Tower Rollover Services Pty Limited  
 Pacific Developments Pty Limited

All of these controlled entities were dormant at the time of disposal.

### (B) FINANCIAL PERFORMANCE AND CASHFLOW INFORMATION

On the date of sale the value of each of the companies sold was \$1.00. Consideration received on the sale was \$1.00 per company.

The profit and net cashflow of these companies was not material in the current or prior periods.

## 8. ACQUISITION

On 31 March 2006 TOWER acquired 100% of the share capital of PrefSure Holdings Ltd, a specialist life insurance business.

Details of net assets acquired and goodwill are as follows:

( New Zealand dollars in thousands )

	<i>Consolidated</i>
	2006
Purchase consideration:	
Cash paid (excluding direct acquisition costs)	142,963
Direct cost related to acquisition paid in cash	1,974
Cash paid	144,937
Purchase consideration payable	1,565
Total purchase consideration	146,502
Fair value of net assets acquired	109,552
Intangibles	36,950

The intangible asset comprises goodwill and the value of in-force business over and above the fair value of the other net assets acquired. The goodwill is attributable to the profitability of the acquired business and the synergies expected to arise as a result of the acquisition. The value of in-force business is the present value of the future profits on the life insurance policies in-force at the date of acquisition. Work is continuing on splitting these two intangible assets.

The assets and liabilities arising from the acquisition are as follows:

( New Zealand dollars in thousands )

	<i>Fair Value</i>	<i>Acquirees carrying amount</i>
Cash	15,375	15,375
Accounts receivable	55,228	55,228
Assets classified as held for sale	2,910	2,910
Fixed interest securities	173,474	173,474
Equity securities	4,558	4,558
Assets arising from reinsurance contracts	134,707	134,707
Investments accounted for using the equity method	657	657
Property, plant and equipment	2,780	2,780
Deferred tax benefit	14,700	14,700
Intangibles	19,855	19,855
<b>Total assets</b>	<b>424,244</b>	<b>424,244</b>
Accounts payable	71,840	71,840
Taxation payable	3,689	3,689
Provisions	7,144	7,144
Deferred tax liability	16,024	16,024
Other liabilities	653	653
Policyholder liabilities – insurance contracts	195,516	195,516
Policyholder liabilities – investment contracts	19,826	19,826
<b>Total liabilities</b>	<b>314,692</b>	<b>314,692</b>
<b>NET ASSETS</b>	<b>109,552</b>	<b>109,552</b>
Purchase consideration settled in cash		(144,937)
Cash and cash equivalents in subsidiary acquired		15,375
Cash outflow on acquisition		(129,562)

There were no acquisitions in 2005.

## 9. CONTINGENT LIABILITIES

TOWER Limited has guaranteed external debt issued by a controlled entity totalling \$200 million.

TOWER Limited has provided a guarantee that a controlled entity will meet its lease commitments under an operating lease for office premises. Annual rental is \$2.6 million. The total outstanding commitment as at 31 March 2006 is \$29.6 million, being rental until the expiry of the lease in December 2013.

### *Taxation Dispute*

In February 2004, the New Zealand Inland Revenue Department (NZIRD) refunded TOWER \$30 million in respect of over paid tax. The NZIRD now believe they ought not to have paid this refund and have written to TOWER disputing TOWER's entitlement to this refund. The NZIRD has not issued demand for payment. TOWER has received strong legal advice that it is fully entitled to the refund.

TOWER is about to commence NZIRD's formal dispute resolution process. The NZIRD has agreed that no tax in respect of this matter will be payable until this process is complete which is expected to take up to two years. In the unlikely event that TOWER is unsuccessful, the \$30 million could be repaid to the NZIRD. Such a payment would reinstate a tax asset representing prepaid taxes that would be available to offset future tax liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

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## 10. IMPACT OF ADOPTION OF NZ IFRS

(A) RECONCILIATION OF EQUITY REPORTED UNDER PREVIOUS NEW ZEALAND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (NZ GAAP) TO EQUITY UNDER NEW ZEALAND EQUIVALENTS TO IFRS (NZ IFRS)

(1) At the date of transition to NZ IFRS: 1 October 2004

( New Zealand dollars in thousands )

### Consolidated Balance Sheet as at 1 October 2004

	Note	Previous NZGAAP	Reclass	Effect of transition to NZIFRS	NZIFRS
Cash and cash equivalents		37,523	–	–	37,523
Receivables		245,685	–	–	245,685
Assets classified as held for sale		–	–	–	–
Fixed interest securities	(iv)	2,166,625	–	(63)	2,166,562
Equity securities	(iv)	1,451,824	–	(1,947)	1,449,877
Investment property	(iv)	393,728	–	1,793	395,521
Other investments	(v)	397,727	(234,361)	(163,366)	–
Deferred acquisition costs	(iii)	69,620	–	64,626	134,246
Taxation receivable		60,471	8,110	–	68,581
Other assets		12,116	–	–	12,116
Property, plant and equipment		28,601	–	–	28,601
Gross life insurance policy liabilities ceded under reinsurance		–	30,384	–	30,384
Deferred tax asset	(i)(ii)(iv)(xi)(xii)	11,769	(7,145)	30,411	35,035
Goodwill	(v)	72,539	234,361	–	306,900
<b>Total assets</b>		<b>4,948,228</b>	<b>31,349</b>	<b>(68,546)</b>	<b>4,911,031</b>
Payables		391,550	(47,374)	–	344,176
Taxation payable		–	8,110	–	8,110
Provisions	(xii)	–	47,374	1,558	48,932
Bank overdraft and senior debt		10,610	–	–	10,610
Insurance provisions	(i)	237,448	–	1,187	238,635
Deferred tax liability	(i)(ii)(iv)(xi)(xii)	–	(7,145)	19,997	12,852
Other liabilities		29,281	4,615	–	33,896
Deferred revenue liabilities	(ii)	–	117,536	–	117,536
Policyholder liabilities – insurance contracts	(i)	3,282,940	(2,225,584)	161,559	1,218,915
Policyholder liabilities – investment contracts	(i)(ii)(iii)	–	2,138,432	–	2,138,432
Capital bonds / notes		200,000	(4,615)	–	195,385
<b>Total liabilities</b>		<b>4,151,829</b>	<b>31,349</b>	<b>184,301</b>	<b>4,367,479</b>
<b>NET ASSETS</b>		<b>796,399</b>	<b>–</b>	<b>(252,847)</b>	<b>543,552</b>
<b>Represented by:</b>					
Issued capital		1,040,340	–	–	1,040,340
Retained earnings		(157,322)	(94,274)	(253,481)	(505,077)
Reserves		(94,274)	94,274	634	634
Minority interests		7,655	–	–	7,655
<b>SHAREHOLDERS' EQUITY</b>		<b>796,399</b>	<b>–</b>	<b>(252,847)</b>	<b>543,552</b>

(2) At the end of the last half year reporting period under previous NZ GAAP : 31 March 2005

( New Zealand dollars in thousands )

<i>Consolidated Balance Sheet as at 31 March 2005</i>					
	Note	Previous NZGAAP	Reclass	Effect of transition to NZIFRS	NZIFRS
Cash and cash equivalents		18,718	–	–	18,718
Receivables		193,893	7,015	–	200,908
Assets classified as held for sale		–	–	–	–
Fixed interest securities	(iv)	2,368,808	–	(914)	2,367,894
Equity securities	(iv)	1,495,831	–	(315)	1,495,516
Investment property	(iv)	330,020	–	1,958	331,978
Other investments	(v)	265,780	–	(265,780)	–
Deferred acquisition costs	(iii)	70,480	–	63,834	134,314
Taxation receivable		20,709	40,302	–	61,011
Other assets		11,144	(11,024)	–	120
Property, plant and equipment		75,711	–	–	75,711
Gross life insurance policy liabilities ceded under reinsurance		–	22,684	–	22,684
Deferred tax asset	(i)(ii)(iv)(xi)(xii)	14,587	33,734	41,167	89,488
Goodwill	(v)	16,858	–	141,235	158,093
<b>Total assets</b>		<b>4,882,539</b>	<b>92,711</b>	<b>(18,815)</b>	<b>4,956,435</b>
Payables		316,886	(23,766)	–	293,120
Taxation payable		–	5,692	–	5,692
Provisions	(xii)	–	24,001	1,108	25,109
Bank overdraft and senior debt		10,921	–	–	10,921
Insurance provisions	(i)	238,104	–	1,023	239,127
Deferred tax liability	(i)(ii)(iv)(xi)(xii)	–	33,736	31,208	64,944
Other liabilities		27,047	34,375	–	61,422
Deferred revenue liabilities	(ii)	–	117,962	–	117,962
Policyholder liabilities – insurance contracts	(i)	3,359,664	(2,372,850)	158,305	1,145,119
Policyholder liabilities – investment contracts	(i)(ii)(iii)	–	2,277,570	–	2,277,570
Capital bonds / notes		200,000	(4,009)	–	195,991
<b>Total liabilities</b>		<b>4,152,622</b>	<b>92,711</b>	<b>191,644</b>	<b>4,436,977</b>
<b>NET ASSETS</b>		<b>729,917</b>	<b>–</b>	<b>(210,459)</b>	<b>519,458</b>
<b>Represented by:</b>					
Issued capital		910,519	–	–	910,519
Retained earnings		(116,816)	–	(302,674)	(419,490)
Reserves		(70,846)	–	92,215	21,369
Minority interests		7,060	–	–	7,060
<b>SHAREHOLDERS' EQUITY</b>		<b>729,917</b>	<b>–</b>	<b>(210,459)</b>	<b>519,458</b>

# NOTES TO THE FINANCIAL STATEMENTS

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## 10. IMPACT OF ADOPTION OF NZ IFRS (CONTINUED)

(3) At the end of the last reporting period under previous NZ GAAP : 30 September 2005

( New Zealand dollars in thousands )

### Consolidated Balance Sheet as at 30 September 2005

	Note	Previous NZGAAP	Reclass	Effect of transition to NZIFRS	NZIFRS
Cash and cash equivalents		15,724	–	–	15,724
Receivables		207,842	2,028	–	209,870
Assets classified as held for sale		–	49,817	–	49,817
Fixed interest securities	(iv)	2,577,516	–	(174)	2,577,342
Equity securities	(iv)	1,584,356	–	(1,199)	1,583,157
Investment property	(iv)	355,458	(49,817)	349	305,990
Other investments	(v)	289,892	(142,269)	(147,623)	–
Deferred acquisition costs	(iii)	70,343	82,771	(19,414)	133,700
Taxation receivable		27,115	30,522	–	57,637
Other assets		5,530	(5,433)	–	97
Property, plant and equipment		14,873	–	–	14,873
Gross life insurance policy liabilities ceded under reinsurance		–	22,298	–	22,298
Deferred tax asset	(i)(ii)(iv)(xi)(xii)	–	61,097	13,871	74,968
Goodwill	(v)	15,970	142,269	1,774	160,013
<b>Total assets</b>		<b>5,164,619</b>	<b>193,283</b>	<b>(152,416)</b>	<b>5,205,486</b>
Payables		412,739	(28,756)	–	383,983
Taxation payable		–	10,132	–	10,132
Provisions	(xii)	–	28,756	816	29,572
Bank overdraft and senior debt		2,893	–	–	2,893
Insurance provisions	(i)	242,837	–	1,119	243,956
Deferred tax liability	(i)(ii)(iv)(xi)(xii)	4,858	61,097	4,343	70,298
Other liabilities		26,491	20,390	–	46,881
Deferred Revenue liability	(ii)	–	117,778	–	117,778
Life insurance contract liabilities	(i)	3,494,061	(2,337,434)	8,268	1,164,895
Life investment contract liabilities	(i)(ii)(iii)	–	2,324,725	66,840	2,391,565
Capital Bonds/Notes		200,000	(3,405)	–	196,595
<b>Total liabilities</b>		<b>4,383,879</b>	<b>193,283</b>	<b>81,386</b>	<b>4,658,548</b>
<b>NET ASSETS</b>		<b>780,740</b>	<b>–</b>	<b>(233,802)</b>	<b>546,938</b>
<b>Represented by:</b>					
Issued capital		911,772	–	–	911,772
Retained earnings		(84,134)	–	(326,415)	(410,549)
Reserves		(50,063)	–	92,613	42,550
Minority interests		3,165	–	–	3,165
<b>SHAREHOLDERS' EQUITY</b>		<b>780,740</b>	<b>–</b>	<b>(233,802)</b>	<b>546,938</b>

(B) RECONCILIATION OF PROFIT REPORTED UNDER PREVIOUS NEW ZEALAND GENERALLY ACCEPTED ACCOUNTING PRINCIPLES (NZ GAAP) TO PROFIT UNDER NEW ZEALAND EQUIVALENTS TO IFRSS (NZ IFRS)

(1) Reconciliation of profit for the half year ended 31 March 2005

( New Zealand dollars in thousands )

<i>Consolidated Income Statement for the half year ended 31 March 2005</i>					
	Note	Previous NZGAAP	Reclass	Effect of transition to NZIFRS	NZIFRS
<b>Continuing operations</b>					
Premium revenue		288,493	–	–	288,493
Less : Insurance ceded		(38,778)	–	–	(38,778)
Net premium income		249,715	–	–	249,715
Investment income	(v)(iv)(x)	224,664	6,967	(8,038)	223,593
Fee and other income		65,620	(39,289)	–	26,331
<b>Total operating revenue</b>		<b>539,999</b>	<b>(32,322)</b>	<b>(8,038)</b>	<b>499,639</b>
Claims expense	(i)	179,789	–	(164)	179,625
Less : Reinsurance proceeds received		(28,589)	–	–	(28,589)
Claims expense		151,200	–	(164)	151,036
Change in life investment contract liabilities	(ii)(iii)(iv)(xi)(xii)	95,656	23,431	(262)	118,825
Change in life insurance contract liabilities	(i)	–	(7,181)	–	(7,181)
Management and sales expenses	(ii) (xi) (xii)	208,320	(26,046)	450	182,724
<b>Total operating expenses</b>		<b>455,176</b>	<b>(9,796)</b>	<b>24</b>	<b>445,404</b>
Amortisation of intangibles	(vi)	2,537	–	(2,537)	–
Financing costs		8,272	1,053	–	9,325
Gain on disposal of AWM	(vii)	23,045	(72,955)	49,910	–
<b>Profit before taxation</b>		<b>97,059</b>	<b>(96,534)</b>	<b>44,385</b>	<b>44,910</b>
Taxation expense/(credit)	(ii)(iii)(iv)(vii)(xi) (xii)	41,467	(18,116)	331	23,682
<b>Profit from continuing operations</b>		<b>55,592</b>	<b>(78,418)</b>	<b>44,054</b>	<b>21,228</b>
Profit from discontinued operations		–	78,418	–	78,418
<b>Profit before minority interests</b>		<b>55,592</b>	<b>–</b>	<b>44,054</b>	<b>99,646</b>
Profit attributable to minority interests		285	–	–	285
<b>Profit attributable to Shareholders</b>		<b>55,307</b>	<b>–</b>	<b>44,054</b>	<b>99,361</b>

# NOTES TO THE FINANCIAL STATEMENTS

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## 10. IMPACT OF ADOPTION OF NZ IFRS (CONTINUED)

### (2) Reconciliation of profit for the year ended 30 September 2005

( New Zealand dollars in thousands )

<i>Consolidated Income Statement for the year ended 30 September 2005</i>					
	Note	Previous NZGAAP	Reclass	Effect of transition to NZIFRS	NZIFRS
<b>Continuing operations</b>					
Premium revenue		622,242	623	–	622,865
Less : Insurance ceded		(106,557)	–	–	(106,557)
Net premium income		515,685	623	–	516,308
Investment income	(v)(iv)(x)	517,079	(2,090)	(33,166)	481,823
Fee and other income		98,602	(37,380)	–	61,222
<b>Total operating revenue</b>		<b>1,131,366</b>	<b>(38,847)</b>	<b>(33,166)</b>	<b>1,059,353</b>
Claims expense	(i)	375,641	–	(30)	375,611
Less : Reinsurance proceeds received		(63,848)	–	–	(63,848)
Claims expense		311,793	–	(30)	311,763
Change in life investment contract liabilities	(ii)(iii)(iv)(xi)(xii)	269,051	(34,047)	744	235,748
Change in life insurance contract liabilities	(i)	–	34,585	–	34,585
Management and sales expenses	(ii) (xi) (xii)	403,453	(28,809)	(2,926)	371,718
<b>Total operating expenses</b>		<b>984,297</b>	<b>(28,271)</b>	<b>(2,212)</b>	<b>953,814</b>
Impairment of goodwill		–	–	–	–
Amortisation of intangibles	(vi)	3,441	–	(3,441)	–
Financing costs		17,511	–	–	17,511
Gain on disposal of AWM	(vii)	23,045	(72,955)	49,910	–
<b>Profit before taxation</b>		<b>149,162</b>	<b>(83,531)</b>	<b>22,397</b>	<b>88,028</b>
Taxation expense/(credit)	(ii)(iii)(iv)(vii)(xi) (xii)	49,649	(2,634)	895	47,910
<b>Profit from continuing operations</b>		<b>99,513</b>	<b>(80,897)</b>	<b>21,502</b>	<b>40,118</b>
Profit from discontinued operations		–	80,897	–	80,897
<b>Profit before minority interests</b>		<b>99,513</b>	<b>–</b>	<b>21,502</b>	<b>121,015</b>
Profit attributable to minority interests		(1,685)	–	–	(1,685)
<b>Profit attributable to Shareholders</b>		<b>97,828</b>	<b>–</b>	<b>21,502</b>	<b>119,330</b>

(C) RECONCILIATION OF CASHFLOW STATEMENT FOR THE YEAR ENDED 30 SEPTEMBER 2005

The adoption of NZ IFRSs has not resulted in any material adjustments to the cash flow statement.

(D) EXPLANATION OF ADJUSTMENTS

*(i) Adjustments to valuations of life insurance contracts*

NZ IFRS 4 Insurance Contracts applies to life insurance contracts and financial instruments with discretionary participation features. A contract governed by the Life Insurance Act, that does not meet the definition of a life insurance contract in this standard, is a life investment contract and is treated under NZ IAS 39 Financial Instruments: Recognition and Measurement and NZ IAS 18 Revenue.

*Changes to actuarial assumptions – discount rate*

All key actuarial assumptions for life insurance contracts used under NZ IFRS are consistent with assumptions applied under NZ GAAP with the exception of the discount rate to be applied.

To the extent that the benefits under life insurance contracts are not contractually linked to the performance of the assets held, the life insurance liabilities shall be discounted for the time value of money using risk-free discount rates. This contrasts with previous NZ GAAP which required the use of discount rates based on market returns on the investments supporting the policy liabilities.

*(ii) Adjustments to valuations of life investment contracts*

NZ IFRS 4 requires life investment contract policy liabilities to be accounted for as a financial liability using the fair value option where permitted under NZ IAS 39 adjusted for the value of any associated investment services contract (under NZ IAS 18).

The life investment contract policy liability previously reported on the balance sheet under NZ GAAP is separated into three components upon adoption of NZ IFRS, comprising: 1) a financial liability representing the present value of future surrender and maturity benefits plus the value of any embedded derivatives or guarantees; 2) a deferred income liability in respect of entry fees or exit penalties 3) an asset representing deferred acquisition costs (DAC).

Investment contract policy liabilities are computed using discounting and other fair value techniques. This ensures that the calculations allow for product features including the impact of regular premiums, timing of surrender penalties and surrender value minimal. The computations are made with regard to relevant actuarial principles to ensure the liability best represents its fair value. Any change in fair value is recognised in the income statement.

Annual fee income for the investment services contract is recognised as revenue on receipt and entry fees are deferred to be recognised as service is provided.

Entirely variable acquisition costs (i.e. transaction costs including initial commissions) are deferred and amortised over the life of the contract. The DAC asset is subject to an impairment test.

The key actuarial assumptions used under NZ IFRS are consistent with those previously assumed under NZ GAAP with the exception of the discount rate. Under NZ IFRS the discount rate is required to be consistent with investment earnings. Under NZ GAAP they were also consistent but at a rate based on the estimated return on the underlying investment (including a significant equity component).

*(iii) Adjustments to DAC for non life investment contracts*

Under NZ IFRS entirely variable acquisition costs (i.e. transaction costs including initial commissions and volume bonuses) are deferred and amortised over the life of the contracts. The DAC asset is subject to an impairment test.

This differs from NZ GAAP where non commission acquisition costs were also deferred. The impacts noted arise from the lower levels of DAC recognised.

*(iv) Adjustment from net market value to fair value*

Under NZ IFRS, fair values must be determined using bid price, as compared to the use of last sale price under NZ GAAP. In addition selling costs are no longer allowed for under NZ IFRS.

*(v) Removal of unrealised revaluations of subsidiary investments of life companies*

Under NZ GAAP, life insurance entities and their parents, were required to carry investments in subsidiaries at market value and recognise the excess over the value of net assets as Excess of Market Value Over Net Assets (EMVONA). EMVONA included both acquired and internally generated goodwill.

Under NZ IAS 38 the EMVONA asset can no longer be recognised to the extent that it represents internally generated goodwill. NZ IAS 38 only allows for the recognition of acquired goodwill.

On adoption of NZ IFRS, EMVONA was reclassified as goodwill and restated to the value of acquired goodwill less any amortisation and impairment recognised under previous NZ GAAP.

*(vi) Removal of amortisation of goodwill*

In accordance with NZ IFRS 3 Business Combinations, amortisation of goodwill will be prohibited and will be replaced by annual impairment testing to ensure that the carrying value of goodwill is no greater than the recoverable amount.

# NOTES TO THE FINANCIAL STATEMENTS

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## 10. IMPACT OF ADOPTION OF NZ IFRS (CONTINUED)

### (D) EXPLANATION OF ADJUSTMENTS (CONTINUED)

#### *(vii) Adjustment to recognised gain on separation of discontinued businesses*

As noted in (v) and (vi) the adoption of NZ IFRS resulted in changes to the carrying value of subsidiaries recognised on the balance sheet and as a result the gain on sale, being the difference between the net sale proceeds and the carrying value of the subsidiary, also changes.

Under previous NZ GAAP, subsidiaries were carried at directors' valuation with valuation movements going to the income statement. Upon adoption of NZ IFRS these revaluations have been reversed. In the case of the AWM sale this has resulted in the gain on sale increasing because the carrying value is now lower than previously reported under NZ GAAP.

In addition NZ IFRS requires that any balances recognised in the foreign currency translation reserve (FCTR) that are held against the foreign denominated subsidiary investment is reported through the income statement when it is disposed of. Under NZ GAAP the balance held in the FCTR would have been transferred directly to retained earnings.

#### *(viii) Adjust for non discounting of deferred tax*

Under NZ IAS 12 Income Taxes, deferred tax must be recognised on temporary differences, whereas under NZ GAAP deferred tax is recognised on timing differences. The definition of temporary differences is broader than timing differences, and therefore NZ IAS 12 could, in some circumstances, result in recognition of more deferred tax assets/liabilities. TOWER is currently assessing how the principles underpinning the calculation of temporary differences should be applied to its New Zealand policyholder business, and at this stage cannot reliably estimate the financial effect, if any. TOWER has performed an assessment of the temporary differences in other parts of TOWER's business and the estimated financial effect on net assets as at 30 September 2005 and profit for the 2005 financial year is not material.

Under NZ IFRS discounting of tax assets and liabilities, that was previously required under NZ GAAP, is prohibited. The impacts reported arise from the removal of discounting on deferred tax balances.

#### *(ix) Adjustments to general insurance liabilities*

As all general insurance contracts issued by TOWER meet the definition of insurance contracts as defined by NZ IFRS 4 the adoption of NZ IFRS will have minimal change on the accounting treatment of this business. NZ IFRS 4 essentially allows for the previous accounting treatment applied under NZ GAAP to be continued until the new IFRS insurance contracts standard is developed and issued.

The only notable changes from the adoption of NZ IFRS is the liability adequacy testing that must be performed to support the adequacy of the unearned premium liability and the measurement of outstanding claims liabilities that must include a risk premium.

The liability adequacy test is performed at the reporting entity level by portfolios of contracts that are subject to broadly similar risks and are managed together as a single portfolio. The test must include a risk margin to reflect the inherent uncertainty in a central estimate. If the unearned premium liability is shown to be deficient, the deficiency must be recognised through the income statement.

The liability adequacy test performed on the unearned premium liability held in respect of the general insurance business has shown that the level of reserves held under NZ GAAP meet the reserves required under NZ IFRS.

The outstanding claims liability is measured as the central estimate of the present value of the expected future payments for claims incurred with an additional risk margin to allow for the inherent uncertainty in the central estimate. The adoption of NZ IFRS has not had a material effect on the unearned premium reserve in the balance sheet.

#### *(x) Adjust for owner occupied property*

The accounting treatment for investment property that is deemed owner occupied property falls under NZ IAS 16 Property, Plant and Equipment. NZ IFRS 4 requires such properties held in life companies and deemed to back policy liabilities to be accounted for under the revaluation model in NZ IAS 16.

The fair value treatment under NZ IFRS differs from previous net market value under NZ GAAP requirement in that no allowance is made for selling costs when determining the carrying value.

The requirement to treat these owner occupied property investments as property, plant and equipment rather than investment property also means that any revaluations under NZ IFRS are recognised in a reserve in equity, except where the revaluation results in a debit reserve balance in which case that balance, and any subsequent revaluation reversal of that amount, is recognised in profit and loss. Under NZ GAAP all revaluations were recognised through the income statement.

As these properties are held by participating funds this will cause a mismatch in the profit and loss. While the increase in policyholder liabilities will be reported through profit and loss the matching revaluation will go direct to equity.

The impacts are reported after allowing for tax.

*(xi) Adjust for share based payments*

TOWER operates executive share option schemes. Under NZ GAAP options issued to employees under performance incentive schemes were not recognised as an expense in the statement of financial performance.

Under NZ IFRS the cost of option schemes entered into with employees will be recognised through the income statement as an expense over the periods in which the equity instruments vest. There will be an equal and opposite adjustment made through the share based payments reserve reported in equity.

The expense recognised over the vesting period will be based on the fair value of the options at the grant date which is subject to performance conditions being met.

*(xii) Adjust for recognition of capital guarantees*

TOWER provides capital guarantees to certain funds. Some funds are included on the TOWER consolidated balance sheet and some are held off balance sheet.

Under NZ GAAP TOWER disclosed these guarantees as contingent liabilities but did not recognise a provision for these capital guarantees as it was assessed that it was not probable that the liability will materialise. TOWER has assessed that, in accordance with the principles of NZ IFRS, certain guarantees are embedded derivatives and therefore a provision should be raised to recognise the value of these embedded liabilities.

The impacts reported arise from adopting this approach.

*Tax effecting future profit margins within policy liabilities*

Life insurance policy liabilities represent the net present value of estimated future cash flows and planned profit margins. Using the margin on services methodology planned after tax margins are recognised in the income statement over the period services are provided to policyholders.

With the adoption of NZ IFRS a life insurance industry issue has arisen as to whether or not any taxable temporary differences are implicitly embedded within life insurance policy liabilities and should be disclosed separately. At the time of preparing these financial statements this matter has not been resolved.

Because of uncertainty surrounding this issue and the complexity involved in calculating any taxable temporary differences the company has continued to measure and disclose life insurance policy liabilities in accordance with previous NZ GAAP and NZ IFRS 4.

The directors believe that, if it is deemed there are taxable temporary differences embedded within policyholder liabilities and they can be reliably measured, it is likely to represent a reclassification of a liability between life insurance policy liabilities and deferred tax liabilities rather than have an impact on net profit, total assets or total liabilities of the consolidated and parent entities.

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## 2006 TOWER DIRECTORY

TOWER LIMITED  
ARBN 088 481 234  
Incorporated in New Zealand

REGISTERED OFFICE  
Level 11, 22 Fanshawe Street,  
PO Box 90347, Auckland, New Zealand

GENERAL MANAGER INVESTOR RELATIONS  
AND CORPORATE SERVICES  
Philippa Ellis

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## SHAREHOLDER ENQUIRIES

Shareholders with enquiries regarding share transactions and change of address should contact the TOWER Share Registry:

COMPUTERSHARE INVESTOR  
SERVICES LIMITED  
Level 2, 159 Hurstmere Road  
Takapuna, Auckland  
Private Bag 92119  
Auckland 1020  
New Zealand

Shareholder enquiries regarding TOWER's operating and financial performance should be addressed to:

INVESTOR RELATIONS  
TOWER Limited  
PO Box 90347  
Auckland  
New Zealand  
or e-mailed to:  
[investor-relations@towerlimited.com](mailto:investor-relations@towerlimited.com)

The TOWER Limited Half Year Report and the TOWER Limited Investor Report for the six months ended 31 March 2006 are available on the TOWER website: [www.towerlimited.com](http://www.towerlimited.com).



